ONTARIO BUDGET 1980

The Honourable Frank S. Miller
Treasurer of Ontario

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Presented by the Honourable Frank S. Miller,
Treasurer of Ontario
in the Legislative Assembly of Ontario,
Tuesday, April 22, 1980

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ISSN 0381-2332

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1980 Budget at a Glance

	1979-80	1980-81	Growth Rates
	($ million)		(%)
Gross Provincial Product	101,150	110,200	+8.9
Spending	15,855	17,121	+8.0
Revenue	15,196	16,172	+6.4
Cash Requirements	659	949	

1980 Budget Statement

Mr. Speaker:

It is my pleasure tonight to present the 1980 Budget for the Province of Ontario. The policies this Budget contains will help to ensure enhanced economic prosperity and stability for the citizens of Ontario. They are the policies of a progressive, dynamic and sensitive Government under the leadership of the Honourable William G. Davis.

When I rose in this Chamber one year ago to present the 1979 Budget, I said that the most important challenge facing the province was the need to create more jobs. Our job creation record throughout the 1970s had been outstanding, but I felt then that we should do better in order to meet the needs of our growing labour force. I am pleased to report that our economy performed even better than most people thought it could. In 1979, 161,000 new jobs were created in this province. That was a remarkable accomplishment. Moreover, every one of these jobs was created in the private sector.

Last year I also stressed the need for government to ensure that it does not add to inflationary pressures. Programs to improve public services and to stimulate the economy must be undertaken within a framework of responsible fiscal management so that government limits its claim on the resources of the economy. It is with some pride as Treasurer that I can inform the Members of our achievement of a reduction in the deficit of $494 million below the original target for the fiscal year just ended.

Ontario's job creation and fiscal management accomplishments are important measures of the success of this Government in dealing with the problems of our economy. However, there is no room for complacency. I do not for a minute underestimate the economic challenges which lie before us in Ontario and Canada. We must continue to develop and implement comprehensive policies to ensure that Ontario's economic performance improves steadily throughout the 1980s. Our programs must be designed for the needs of tomorrow as well as today. At the same time, we must continue to deal effectively with the immediate issues of employment growth and inflation. I believe

that I have developed a Budget plan consistent with these challenges. It is designed to achieve three objectives:

- first, to maintain a favourable climate for job growth and economic expansion in Ontario;
- second, to ensure a high standard of social services for the people of Ontario and in particular to help our elderly citizens cope with inflation; and,
- third, to combat inflation by controlling government spending and minimizing deficit levels.

Mr. Speaker, before proceeding with my remarks I would like to thank all of the groups I consulted with before preparing this Budget. I met with organizations representing all walks of life including small businessmen, consumers, corporations, unions, farmers, teachers and bankers. All of our discussions were constructive and I benefitted from the advice I received. In my opinion, such open dialogue is essential to the formulation of sound policies.

A Firm Foundation for Economic Prosperity in the 1980s

I would like to deal first with the record of Ontario's economic performance in the past decade and our policies for economic development in the 1980s. Some would have us believe, Mr. Speaker, that Ontario has become a second rate province in terms of its economic well being. That simply is not so. The record shows that we in Ontario have done significantly better than most other industrial economies. Moreover, we have developed new economic policies to make sure that the people of this great province will continue to prosper throughout the 1980s.

Economic Performance in the 1970s

As the Members will recall, during the mid 1970s the international price of oil began to escalate quickly, setting off strong recessionary and inflationary pressures. Ontario, as well as every other industrial economy in the western world that was a net oil importer, faced fundamental problems of adjustment. Nevertheless, in terms of real output growth, Ontario outperformed West Germany, the United States and, in fact, the combined OECD countries. In the 1970s, our economy grew by 3.7 per cent per annum compared with an average of 3.5 per cent in the OECD countries. And in employment terms, in human terms, where it really counts, Ontario's performance in job growth ran well ahead of that in Germany, the United Kingdom or the United States. Since 1969, we have increased our employment

by an average of 3.0 per cent each year, compared with 2.2 per cent in the United States and much lower levels in other OECD countries.

Ontario's Real Growth Outpaced Most Industrial Nations, 1970-1979
(average annual growth rate)

	(%)
Japan	6.1
Canada	4.2
Ontario	3.7
West Germany	3.2
United States	2.9
United Kingdom	2.1
OECD Countries	3.5

Source: Statistics Canada, OECD, and the Conference Board in Canada.

Ontario's Job Creation Record, 1970-1979
(average annual growth rate)

	(%)
Ontario	3.0
Canada	2.8
United States	2.2
Japan	0.9
United Kingdom	0.1
West Germany	−0.4

Source: Statistics Canada, and OECD.

In Canada, the rate of inflation has recently been below that experienced in the United States, partly as a result of a determined effort to restrain expenditure and employment growth in the provincial public sector. In addition, the Ontario Government has put in place incentive programs to increase investment, job skills and productivity. Our cost performance has been much improved relative to the United States and we are more competitive in foreign markets.

Unit Labour Costs in Canada and the United States
(per cent growth in $U.S.)

	1975	1976	1977	1978	1979
Economy wide*					
Canada	11.3	11.5	−1.8	−3.0	4.7
United States	7.9	4.7	6.3	8.0	10.2
Manufacturing					
Canada	12.9	11.6	−2.1	−4.8	5.9
United States	6.5	3.8	5.3	7.7	7.2

Source: Bank of Canada, and U.S. Department of Labour.
*For the non-farm commercial sector.

Mr. Speaker, we are sometimes told that dire consequences flow from the fact that Ontario did not perform quite as well as some of the resource rich Western provinces. We are regaled with fables of poor comparative performance. But is it realistic or meaningful to compare Ontario with Alberta and draw conclusions about economic management? I think not. Consider, for example, comparing Japan, the most successful of the industrialized economies over the 1970s, to say Kuwait or Saudi Arabia. The OPEC nations on any income growth or per capita income comparisons would win hands down. But does it say anything about economic management in Japan or, for that matter, Saudi Arabia? No. If you are lucky enough to have oil in the ground, you can be made to appear a genius of economic management by these standards. But it is the management and development of total resources — human, natural and industrial — that really has meaning for the people. When you measure Ontario by that standard, we compare very well indeed.

Economic Development Policies for the 1980s

This Government is committed to ensuring continued strong economic growth in Ontario by building on the solid foundation that we have created. I would like to elaborate on some of the measures we are pursuing to ensure that the 1980s will be a decade of growth and prosperity for Ontario.

Energy

We are committed to pursuing initiatives in energy that lie within our own jurisdiction. We also will continue to press the federal government, the producing provinces, and other consuming provinces for oil pricing policies that are aimed at achieving Canadian self-sufficiency without exacting unnecessarily high social and economic costs. We will continue, as well, to support the polar gas study project. Ontario's participation in the consortium now exceeds $17 million. This investment is showing increasing promise of providing our economy with a major new source of natural gas, not to mention the many job opportunities that will be created during the pipeline construction phase. Later in this Statement I will outline some additional taxation and financial incentives to augment energy conservation and supply.

Manpower Training

Turning to the area of manpower, I have already mentioned the exceptional job creation record we have set in Ontario in recent years. However, we recognize that skill training is an area to which more attention and resources must be devoted if our young people are to get better and more rewarding jobs, and our businesses are

to become more productive. Last year, we acted to improve the operation and coordination of our manpower programs by creating the Ontario Manpower Commission. The Commission has undertaken an intensive evaluation of existing manpower programs and has moved to ensure greater community participation in manpower training activities. This year, we will be providing a significant increase in Provincial funding for the Employer Sponsored Training Program. We anticipate that an additional 5,000 employees will receive training as a result of this Program in 1980-81.

Creating Investment

In my last Budget, I announced the establishment of the Employment Development Fund (EDF) to stimulate job creation and business investment in Ontario. Financial assistance was made available on a selective basis to the private sector to improve the province's competitive position and to enhance long term economic development.

In its first year, the EDF has been an effective catalyst in attracting significant investment capital to the province during a period of escalating interest rates and uncertainties in the North American economy. To date, the Employment Development Board has approved assistance which will secure total private sector investments of over $2 billion. The Province has obtained strong commitments for Canadian sourcing and job training in these new investment projects.

Negotiations with the general manufacturing and tourism sectors will result in capital expansions of about $900 million. This will assist in the creation of more than 10,000 jobs in Ontario over the next five years. The Province has also obtained commitments from the pulp and paper industry for capital investments for productivity improvement and pollution control, totalling $1.2 billion. This will dramatically improve the competitive position of this vital industrial sector and increase the long term job security of more than 20,000 mill workers and loggers located primarily in the smaller communities of Northern Ontario.

In light of the success of the EDF in its first year of operation, I intend to continue this program in the coming year. The Fund will have a budget of $125 million to complete the programs started last year and to finance new initiatives such as the recently announced textile productivity program. In addition, we have made provision for new initiatives to finance urban transportation development and the enriched manpower training to which I have already referred.

I would note as well, Mr. Speaker, that the improved programs of Ontario's Development Corporations and the investments triggered by our small business development corporation legislation are ensuring that small business also receives assistance in pursuing its investment plans. Encouraging Canadian ownership of business remains an objec-

Employment Development Fund Expenditures
($ million)

	Interim 1979-80	Estimated 1980-81
Manufacturing, Pulp and Paper	126.0	85.9
SBDCs	4.0	10.0
Textiles	—	11.5
UTDC	—	8.3
Employee Training	—	5.3
Mining Exploration	—	4.0
Total	130.0	125.0

tive of the Government. In continuing the EDF this year, we will again place priority on the encouragement of Canadian ownership and Canadian sourcing of materials as stated in the Ontario Budget of 1979. The SBDC legislation, which I will ask this House to improve, will continue to have Canadian control as one of the criteria for an eligible small business. In addition, a new provision that I will describe shortly, will provide further investment incentives for small Canadian controlled private corporations so that we may strengthen and encourage Canadian ownership.

Development in Northern and Eastern Ontario

In our approach to economic development we are taking special initiatives to assist Northern and Eastern Ontario. As well as giving priority to EDF expenditures in these areas, we have taken additional steps. For example, in December, I signed a $50 million five-year agreement with DREE which will help finance further development of the resource base of Eastern Ontario and support related small business development. Already over $8.5 million has been committed under this agreement for agricultural and forestry projects. I am optimistic that we can conclude a similar agreement with the federal government for Northern Ontario.

Development of Rural Ontario

The Government is also initiating new programs to stimulate the development of rural Ontario. Forestry expenditures on Crown lands in Southern Ontario will be increased by 30 per cent in 1980-81. The Ministry of Natural Resources will be accelerating its programs to improve forest management on private lands and will be undertaking demonstration projects to test new forestry techniques in Southern Ontario. These measures will help offset deficiencies in local wood supplies, thus ensuring a stable future for existing sawmills and other forest related industries. The Tourism Redevelopment Incentive Program, which I announced last year, is providing needed assistance to small tourist operations so important to rural employment. We are also

taking another valuable step to assist the rural economy. As the Members will recall, Premier Davis has announced that in the Fall, the Government will consider recommendations from Hydro to reduce the differential between the retail rate for electricity paid by rural and urban residents.

Auto Industry

In concluding my remarks on our longer term economic development policies, Mr. Speaker, I would like to say that I am deeply concerned about the present state of the auto industry in Ontario. In 1979, the Canadian deficit on automobile trade with the United States was over $3 billion. This reflected a staggering $4 billion deficit in auto parts trade. The elimination of this deficit would create up to 25,000 new jobs in the Canadian auto parts industry. Part of the auto trade deficit results from the current weakness of sales in the United States and the orientation of Canadian production to that market. Nonetheless, part of it is clearly a chronic deficit, reflecting the fact that Canada does not have a fair share of international auto parts production and research and development activities.

This Government has repeatedly called for the redress of these imbalances. Once again, I have written to the federal government urging them to adopt the following principles in their negotiations with the auto companies and the United States federal government:

- First, particular emphasis must be placed in the near term on a dramatic reduction of the overall trade deficit in auto parts production.
- Second, over the longer haul, a balance on all automotive trade, including auto parts, must be the prime objective of federal policy.
- Third, a "fair share" approach must be taken to the allocation of investment and research spending in North America.

Ottawa will have our full cooperation in pursuing these objectives.

Ontario's Economic Outlook

I would like now to discuss Ontario's economic prospects for the coming year. Our outlook will continue to be significantly influenced by international events and by federal policies on oil pricing, on reinvestment of petroleum revenues and on interest rates.

In 1979 we witnessed further dramatic increases in international oil prices. Governments around the world are struggling, as they did in 1974, to minimize the inevitable social and economic disruption arising from these inflationary price hikes. In the United States, the increases

in international oil prices, coupled with decontrol of domestic oil prices, have caused widespread inflation and soaring interest rates.

These developments continue to have a profound impact on Canada and Ontario. As I have noted, higher energy prices and gasoline shortages in the United States have severely reduced Ontario's exports of automobiles and parts as Americans move to cars smaller than those made in Ontario. Moreover, the most recent moves to tighten credit and restrain inflation in that country could, in 1980, produce the long expected U.S. recession. Personally, I am hopeful that such a recession would not prove to be as severe as many predict. Nonetheless, we must all be concerned about the trend of economic events to the south.

I have already taken a significant step to help a major sector of our economy this year. As the Members know, the retail sales tax on new 1979 cars and light trucks was eliminated for the month of February. This positive action provided a major boost to Ontario automobile sales when it was needed. I have included an appendix to this Statement which describes the impact of this program. It shows that, during the program, Ontario motor vehicle sales growth far exceeded sales performance in other Canadian provinces and the U.S., yet the cost to the Province was lower than estimated.

Turning back to the economic outlook, the U.S. inflation rate, currently in excess of 16 per cent, has led to higher interest rates and tighter monetary conditions in that country. The Bank of Canada has felt compelled to follow these higher U.S. interest rates in an attempt to protect the value of the Canadian dollar and restrain imported inflation. The result, in my view, has been a steady undermining of the growth potential of many key sectors of the Canadian economy. While the export sector in Canada performed strongly in 1979 and was, in many cases, operating at close to capacity, Canadian demand for domestically produced goods and services was eroded by high interest rates.

Mr. Speaker, I am concerned that the federal government may have allowed itself to be manoeuvred into a position where it has lost its ability to stabilize the Canadian economy. If the United States does move into recession, and our export sales fall off, the dollar may drop in any case. Our export industries would no longer operate close to capacity. Meanwhile, a high interest rate policy to sustain the dollar is lessening growth and employment potential in our own markets in 1980.

The federal concern with the value of the Canadian dollar is undoubtedly legitimate. But the debate on monetary policy in Canada would be improperly focused if the only consideration was whether or not lower interest rates would force down the value of the Canadian dollar and lead to more imported inflation. Monetary policy is a crude

instrument for controlling the economy. It has profoundly different sectoral impacts. We all understand, for example, that homeowners, small businesspersons and farmers are severely affected by high interest rates. However, there is no current evidence of excessive inflation being generated by these sectors. On the contrary, the Bank of Canada cites the need to maintain sufficient capital inflows, and the lack of unused capacity in the export sector as the reasons for high interest rates. Why then should homeowners, farmers, and small businesses bear the burden of fighting inflation? I think the federal government must reconsider its anti-inflation policies.

Mr. Speaker, although 1980 may well turn out to be a more difficult year for the Ontario economy than last year, we still expect a year of real economic growth. Job creation will be slower but still healthy when one considers the remarkable pace of job creation last year. I am particularly gratified by a projected strong investment performance in manufacturing. Investment plans for manufacturing firms are up almost 40 per cent in Ontario. That compares to about 10 per cent for the rest of Canada. The confidence in Ontario as an investment location shown by business augurs well for our future economic well being.

Inflation, unfortunately, may well worsen. While it is a national problem, it is a matter of great concern to this Government. Nonetheless, I am confident that we can continue to make gains in our comparative cost performance with the United States, which is so essential to our attractiveness as an investment location. A viable national anti-inflation policy is a cornerstone of any national development strategy for the 1980s. To this end, Premier Davis has called upon the new federal government to give a high priority to such a policy. A national anti-inflation policy would complement Ontario's own initiatives in setting the framework for a decade of development in the 1980s.

Ontario Youth Employment Programs in 1980-81

Program	Funding	Jobs
	($ million)	
Ontario Career Action Program (OCAP)	9.3	6,000
Experience*	13.3	10,310
Ontario Youth Employment Program (OYEP)	30.0	50,000
Regular Summer Replacement	20.0	7,000
Junior Ranger	4.4	1,800
Ontario-Quebec Exchange**	.4	150
Junior Conservationist Award	.1	40
Total	77.5	75,300

*Includes Agricrew Program and the Junior Agricultural Program.
**Ontario-Quebec Exchange Program is no longer included in Experience.

Before concluding my remarks on the state of our economy in 1980, I would like to note that this Government continues to be concerned about the level of employment for our young people. This year we have increased funding for the Ontario Youth Employment Program to provide for an additional 10,000 summer jobs. In total, our youth employment programs will be providing over 75,000 jobs for Ontario's young people in 1980-81.

Interest Rates

Mr. Speaker, I would like to turn back briefly to the subject of interest rates.

We are all aware of the suffering higher interest rates are inflicting on some people in Ontario, particularly those homeowners who must renew their mortgages at the present time. When this serious situation first became apparent, this Government made two things immediately clear. First, the number one priority for public assistance lies in the federal AHOP program where homeowners would experience crippling increases in their monthly payments if no further assistance were offered. Second, any effective action to alleviate the general impact of interest rates must be undertaken primarily as a national initiative. Some weeks ago the Minister of Housing, the Honourable Claude Bennett, and I made these concerns known to the Minister of Finance and the federal Minister responsible for CMHC. I am encouraged to note that shortly after our meeting, the federal government announced that steps would be taken to assist those in the AHOP program. We are continuing to pursue further possibilities with the federal government. I am hopeful that, by the time the federal budget is ready, Ottawa will have developed an effective program to deal with this national problem.

I would also like to inform the Members that this Government will be tabling a discussion paper in May which will outline alternatives available to deal with this pressing situation. With the cooperation of all Members, and the federal government, I am confident that we can effectively come to grips with this issue. This discussion paper will review interest rate trends and developments and their impact on the economy. Particular attention will be given to analyzing policy alternatives available at the national level for restoring economic stability. As well, the question of providing short term assistance to homeowners, small businesses and farmers will be explored, and mechanisms for providing relief will be described. The paper will also review the roles of borrowers, lenders and government in the process of coping with higher interest rates over the short term.

The federal government has announced in the Speech from the Throne an increase in subsidized lending to small businesses and

farmers. The ceilings on certain loans will be raised to $100,000. As well, other measures of assistance are promised. These moves are encouraging, and we are ready to assist the federal government in designing effective programs of interest rate relief. In preparing its discussion paper on interest rates, the Province will review its own programs for farm support. We are prepared, if necessary, to take independent actions to assist the farming community in Ontario.

Tax Measures to Stimulate Economic Development

I would now like to propose a number of measures which I believe will further assist job creation and economic growth in Ontario. In particular, I will deal with one of the most important areas of our economy, the small business sector. Small businesses provide 50 per cent of all private sector jobs in Ontario and 60 per cent of all the new jobs. They are the lifeblood of our communities. A major objective of this Government is to ensure that small business continues to play a strong and creative role in Ontario's future growth and prosperity.

Small Business Development Corporations

Last year, I introduced innovative legislation with The Small Business Development Corporations Act designed to encourage investment in Canadian small business. This program has been a remarkable success. The term "SBDC" is fast becoming a byword for investment in progressive small business. Almost 50 SBDCs have been registered, with investments of $8 million already made and another $12 million planned. Last year, I indicated I would be willing to consider changes as we gained experience with this program. I have received many constructive suggestions and have decided to propose the following changes in the legislation which I will introduce tonight:

- First, to encourage community participation in local small business ventures, the minimum capital requirement for an SBDC will be reduced from $250,000 to $100,000. I have adopted this proposal in response to a number of submissions, particularly on behalf of small businesses in Northern Ontario.
- Second, while I intend to continue with the 100 employee test for an eligible small business, I propose that if the number of employees grows to exceed 100 but is not more than 200, the small business will continue to qualify as an SBDC investment. When the number of employees grows to more than 200, the investment will remain eligible for up to five years.

- Third, pension funds and credit unions will be eligible to receive grants when they invest in SBDCs. This will further expand the supply of funds for equity investment in small business.
- Fourth, the definition of an eligible small business will be expanded to include book publishing and research and development activities.

I will also be proposing a number of other technical amendments which are outlined in Appendix B to this Statement. As Members will recall, last year I indicated that as this program progressed, I would set an upper limit on the grants to be paid in any one year. In 1979-80, the cost of SBDC incentives was about $4 million. Now that individuals and businesses are actively investing in SBDCs, it is necessary for me to establish a limit which, in 1980-81, will be $10 million.

Easing the Capital Tax for Small Businesses

I would now like to propose an important measure to ease the tax burden on small business. Last year the Legislature approved a number of measures to reduce the capital tax. This year I would like to take a further major step. I propose to extend the $100 flat tax to corporations with taxable capital up to $1 million. Corporations with taxable capital of up to $100,000 will continue to pay $50.

I am recommending one other change in the capital tax. Currently, family farms pay a flat tax of $50 whatever the size of their capital. I propose to extend this provision to family fishing corporations as well.

These capital tax changes will take effect at midnight this day. I estimate the revenue loss to be $20 million this year. Mr. Speaker, as a result of this important measure to reduce and simplify this particular tax, some 150,000 small Ontario corporations will pay $100 or less. Only about 8,000 large corporations in Ontario will pay the full amount of capital tax.

Small Business Tax Credit

I would now like to propose a new corporate income tax incentive for small businesses. It is important to the success of every small businessperson to be able to plough back as much capital as possible into the business. Yet the high cost of borrowing discourages this, as does the need to use scarce working capital to pay taxes. I believe it is possible to implement an effective tax incentive to encourage reinvestment by small businesses.

Accordingly, I am proposing a new investment tax credit which will apply to Canadian controlled private corporations which qualify

for the federal small business deduction. The credit will be equal to 20 per cent of the purchase cost of depreciable assets for use in Ontario. The maximum credit in any one year for any individual small business will be $3,000. Full details of this incentive are outlined in Appendix A to this Statement. I estimate the cost of this measure to be $30 million in this fiscal year. For many entrepreneurs this will make a real difference in their ability to build up their businesses and further strengthen investment in Canadian business.

This new tax incentive, together with the capital tax reduction, will put $50 million back into the hands of small businesses. It will pay long term dividends to our economy in terms of job creation and growth. The program will be continued for two years until April 22, 1982. Before that time, its effectiveness will be reviewed.

Vendor Compensation

As a further action to help small businesses, I propose to improve the compensation to retail sales tax collectors. First, the maximum annual compensation will be increased from $700 to $1,000. Second, compensation paid to those remitting only small amounts of tax will be increased. These two measures will provide additional compensation to thousands of Ontario small businesses at an estimated cost of $8 million in this fiscal year.

Encouraging Mining Exploration

The encouragement of mining exploration is a high priority for this Government. Mining is one of the major sources of employment in Northern Ontario. It provides valuable export income to the national economy. While producing mining companies can take advantage of important tax incentives, individuals or non-mining companies who wish to invest in a mining exploration venture are unable to fully benefit from equivalent incentives. This was one of the reasons why I included mining activities as an eligible investment under the SBDC program. However, experience over the past year indicates that a separate incentive program would be more suitable for this particular industry. Accordingly, tonight I will introduce a Bill to establish the Ontario Mineral Exploration Program. This legislation will allow Provincial assistance of 25 per cent of approved mining exploration expenses incurred in Ontario.

- Individual prospectors and corporations involved solely in the field of mining exploration, and not an associate of any person actively engaged in mineral production, will qualify for Provincial assistance.

- Corporations whose principal business is not related to mining will qualify for non-refundable tax credits.
- To encourage wider participation by individual investors in Ontario exploration, individuals who invest in a joint venture involved in mining exploration in Ontario will be eligible for a grant equal to 25 per cent of their investment. This grant will be in addition to existing personal income tax incentives.

This new mining exploration program will be administered by the Ministry of Natural Resources under the direction of my colleague, the Honourable James Auld. It will improve and expand upon the existing Mineral Exploration Assistance Program which it will gradually replace by the end of this fiscal year. Since mineral exploration ventures will now be eligible for this expanded program, they will not have to be eligible investments for SBDCs. I have set a ceiling of $4 million for assistance under this new program in 1980-81. Details of this program are contained in Appendix C.

Mr. Speaker, I would like to outline a number of additional tax incentives to help our economy.

Research and Development

Currently, Ontario provides a retail sales tax exemption for machinery and equipment purchased by a manufacturer or producer for his own use in the development of products or of production processes. I propose to expand this incentive by exempting machinery and equipment used by manufacturers in research activities. The new exemption will also include R & D activities performed by one firm under contract to another. I estimate the cost of this incentive to be $3 million in this fiscal year.

This measure will reinforce the Province's commitment to expand the amount of research and development undertaken in Ontario. There are, of course, other tax actions that might be considered but these can be implemented effectively only by the federal government. I intend to urge the Minister of Finance to expand the range of incentives offered through the federal tax structure so that Canadian research and development can be further encouraged.

Energy Conservation

Let me now turn to discuss energy conservation. A central thrust of Ontario's energy policy is to reduce the consumption of fossil fuels by developing new conservation measures. I would point out to the Members the numerous retail sales tax incentives which the Ontario Government already provides to promote conservation. In total, these measures will cost the Province some $25 million in 1980-81.

Tonight I propose a number of new tax incentives to promote energy conservation. First, certain additional equipment and materials used in buildings to improve heating efficiency, including "chillers," weather stripping and caulking materials, will be exempt from sales tax. Second, as an incentive for the development of new automobile technology, I propose the elimination of the sales tax on licensed vehicles using non-petroleum based fuels. Third, to encourage further development of alternative fuels for automobiles, I am withdrawing completely the fuel tax on all natural and manufactured gases, including propane, and on alcohol when used as a fuel. I estimate that these initiatives will reduce revenues by some $14 million in 1980-81.

Farming

Mr. Speaker, the economic health of Ontario's farms is always a matter of high priority for this Government. I am proposing to rebate to farmers the full retail sales tax paid on materials incorporated into grain storage bins and structures used to dry grain. This will provide $1.5 million in benefits to farmers in 1980-81.

Tourism and Hospitality

I also propose a measure to help tourism and the hospitality industry in our province. Currently, liquor licensees, such as restaurants, purchase most alcoholic beverages at the same prices as retail customers. On the other hand, licensees may purchase domestic beer at a discount of about five per cent. In most other jurisdictions, many of which are competing with Ontario for the tourist dollar, discounts on bulk purchases by commercial establishments are the rule rather than the exception. I therefore propose to authorize the LCBO to provide a discount of five per cent of the retail price of spirits, wines and imported beer purchased by licensed establishments. This measure will reduce costs to licensees by about $7 million in 1980-81, a saving which I anticipate will be fully passed on to customers.

Corporation Tax

Let me now turn to the taxation of corporations. In 1978, the Province introduced a "carrying on business" test to facilitate the taxation of non-resident corporations carrying on business in Ontario without a permanent establishment. The federal government has expressed the concern that such a provision creates difficulties under international tax treaties. While Ontario is within its constitutional rights to impose such a tax, I believe that it is in the national interest to withdraw this measure. I, therefore, propose that The Corporations

Tax Act be amended to remove the "carrying on business" test for non-resident corporations having no permanent establishment in Ontario.

Last year, the federal government increased the net income tax rate on professional and personal service corporations from 15 to $23^{1}/_{3}$ per cent. I would like to announce that, for Ontario tax purposes, these corporations will continue to be taxed at the 10 per cent rate applicable to small business.

Legislation to enact this and other tax measures to which I have referred will be introduced later tonight by my colleague, the Honourable Lorne Maeck, Minister of Revenue.

Increased Assistance for Senior Citizens

At the beginning of this Statement, Mr. Speaker, I indicated that one of the major objectives of my Budget was to help our senior citizens cope with inflation. I would now like to outline several new initiatives which will provide substantial increases in Provincial assistance for pensioners in Ontario.

Property Tax Relief

As the Members are aware, this Province pioneered the concept of tax credits to help offset the burden of property and sales taxes. Our program has provided significant benefits to pensioners. For example, 46 per cent of property taxes paid by senior citizens in 1979 will be offset by tax credits.

While these benefits are substantial, property taxes continue to weigh heavily on many senior citizens. Recognizing this, Premier Davis made a commitment to, and I quote,

> "reducing the municipal tax burden on senior citizens, and to work towards the ultimate elimination of this particular tax for the majority of Ontario's senior citizens."[1]

I would like now to outline a new program which is a major step towards fulfilling this promise.

Beginning this year, the Ontario Government will provide direct grants of up to $500 to offset property taxes of pensioners who own or rent their homes. This means that the first $500 of a pensioner's annual property taxes will be refunded dollar for dollar by Provincial grants. With this new program, Mr. Speaker, 63 per cent of property taxes paid by pensioners will be offset by the Province. Moreover, about one-half of our senior citizen homeowners and renters will have all of their property taxes refunded by the Province.

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[1]The Hon. W. G. Davis, *A Charter for Ontario,* May 19, 1977.

Pensioners will receive their grants in respect of 1980 taxes in the Fall of this year. Next year we plan to send two payments which will correspond with the interim and final local tax bills. I will be introducing legislation tonight to implement this program. Full details are contained in Budget Paper B.

Before deciding on this measure, I considered the option of simply enriching existing tax credits for pensioners. However, I chose the grant alternative for two important reasons. First, the tax credit system involves a considerable lag in benefits and saddles many pensioners with the inconvenience and worry of filling out a complex tax return which they would not otherwise have to complete. Second, we wished to build an element of universality into this program in order to recognize the lifelong contribution made by all pensioners to our communities.

A New Sales Tax Grant for Pensioners

The Government will also be replacing the sales tax credit for elderly people with a direct annual grant of $50 beginning this year. This grant will be paid to all Ontario pensioners who receive the Old Age Security pension. This new benefit will be paid in late Autumn. Details of the sales tax grant are contained in Budget Paper B.

Ontario's tax credit program will continue in its present form for people who are under 65. However, next year pensioners will not have to claim for tax credit benefits. Of course, they are eligible for 1979 benefits for which they have recently claimed and which many will have already received. In conjunction with this increased relief, The Municipal and School Tax Credit Assistance Act will be repealed at the end of this year. However, The Municipal Elderly Residents Assistance Act will be continued, allowing municipalities to provide relief to pensioners as well.

The cost of the new property tax grants will be $214 million in 1980-81. This represents $39 million in additional assistance. The sales tax grant will provide $41 million in relief for elderly people, an increase of $9 million.

Enriched GAINS

In addition to our new grant programs, I am enriching GAINS payments to provide additional income assistance to low income pensioners. Starting in May, 1980, the maximum payments will be increased by $10 per month. This will provide an additional $120 per year to a single GAINS recipient and $240 more per year to pensioner couples who receive GAINS.

Mr. Speaker, 260,000 Ontario pensioners will benefit directly from this increase. The additional cost of this measure will be $27 million. This means the total additional cost of the GAINS increase and new property and sales tax grants will be $75 million in 1980-81. We are able to afford this because of our effective management of Provincial spending. Our restraint program has paid dividends, Mr. Speaker, and we are redirecting them to our elderly citizens.

Intergovernmental Finance

I would now like to discuss provincial-local finance. Last year I announced a modest 5.4 per cent increase in transfers to local governments. On that occasion, I referred to the obligation we all have as governments to contain the tax burden, to streamline and restrain our spending, and to accept full responsibility for any tax increases we consider necessary. I am gratified, therefore, to advise the Members this evening that the local sector has kept its 1979 spending growth to about 7.3 per cent, even less than in 1978, in spite of higher inflation. As a result, local tax rates rose on average by only 6.4 per cent, well below the rate of inflation and the increase in average household income.

While spending restraint at the local level will remain an important objective, the Province recognizes that current inflationary forces are likely to cause local spending in 1980 to grow more rapidly than in 1979. In order to minimize pressures on local mill rates, the Government has decided in favour of a generous increase in its overall support of the local sector. Provincial transfers in 1980 will increase by 12.4 per cent over last year. Also, part of this enriched package was transferred in advance of the normal schedule, as part of the Province's 1979-80 spending, to reduce, if not eliminate, the need for local governments to engage in short term financing at unusually high interest rates. With the large increase in transfers, I expect that local mill rates in 1980 will increase at even less than the modest rate in 1979. On this basis, I estimate that property taxes on average will decline this year from 2.6 per cent to 2.4 per cent of household income.

I urge the local sector to continue to exercise the discipline displayed in recent years by keeping spending growth as low as possible. In this way, the benefits of our combined efforts will be passed on to the taxpayers.

As the Members are aware, in 1979 the assessment equalization factors were unfrozen for the first time in a decade. As a result, a very large number of municipalities were at risk of financial setbacks. The Government decided therefore to develop an interim policy for 1980 under which the beneficial result of these factors was modified

Ontario's Support to Local Government in 1979 and 1980

($ million)

	Interim 1979	Estimated 1980	Increase
			(%)
Payments to School Boards (including capital grants)	2,055	2,279	10.9
Payments to Municipalities and Agencies	1,793	2,045	14.1
Total Payments	3,848	4,324	12.4

for some municipalities and potential losses were effectively cushioned for all others.

Under the new regime of annually updated equalization factors, a new set of factors will be developed by mid 1980 for 1981. I have already set in motion the necessary research in order to assess the need for further refinements or changes in the 1980 policy for implementation in 1981. It is expected that appropriate announcements of any such changes will be made upon publication of the new factors. If at all feasible, these policy announcements will also contain greater certainty as to the Government's direction for subsequent years.

Turning briefly to the area of federal-provincial finance, I am pleased to see a growing recognition by most other governments in Canada of the need to stabilize public sector growth. This is vital to the health of the nation. Looking ahead, developments in energy pricing could greatly disrupt the economic and fiscal balance among the regions of Canada. Budget Paper A demonstrates that growing fiscal disparities will occur between the oil and gas producing provinces and the other provinces unless current revenue sharing arrangements are thoroughly revised. In particular, the federal-provincial revenue equalization program needs immediate review. All provinces in Canada, with the exception of British Columbia, Alberta and Ontario, rely on a redistribution of wealth from other regions. Ontario taxpayers contribute substantially to this essential fiscal redistribution. None of the recipient provinces could opt out of this federal system without incurring grave immediate financial losses. It is Ontario's opinion that, if this basic feature of revenue sharing among the regions of Canada is to be preserved, a major item on the agenda of our Confederation in the 1980s must be the renegotiation of the equalization program.

The 1980 Fiscal Plan

Mr. Speaker, before summarizing my fiscal plan for 1980, I would like to review briefly the 1979 fiscal year. While we permitted spending increases of $267 million on regular ministry programs, this was more than offset by our careful management of expenditures which yielded savings of $293 million. For this, the credit goes to my colleague, the Honourable George McCague, Chairman of the Management Board of Cabinet. There were a number of unusual and non-recurring expenditure items which resulted in expenditures exceeding the original budget target. We accelerated certain payments, totalling $217 million, to school boards and municipalities in order to minimize their interim financing needs and thus reduce their interest costs. Expenditures were also increased last year to allow for special payments to Ontario Hydro for Parkway Belt West lands; to provide assistance to farmers who suffered tobacco crop losses; and, to assist communities that were affected by the Woodstock tornado and spring flooding. In sum, 1979-80 expenditures were increased by $297 million.

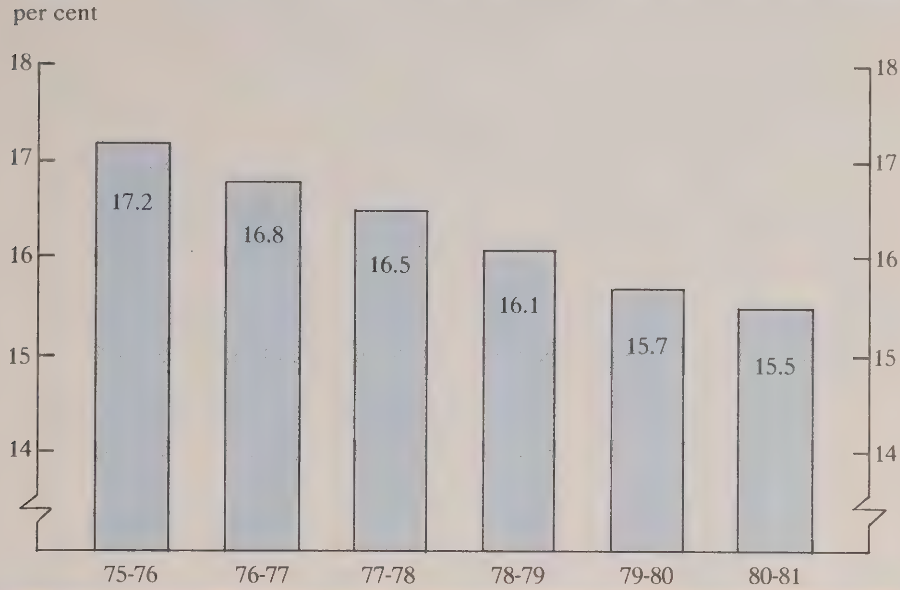
Our revenue performance in 1979-80 was outstanding. Total revenues were $791 million above the amount originally estimated. The bulk of this, about $500 million, resulted from adjustments to certain payments from the federal government and higher than anticipated corporation tax revenues. In all, even though we allowed expenditures to increase, the Provincial deficit dropped to $659 million, a reduction of $494 million. The full details concerning expenditures and revenues in 1979-80, as well as the new fiscal year, are contained in Budget Paper C.

Expenditures

Turning to the 1980 fiscal year, I would like to deal with expenditures. For the past five years, the Ontario Government has led the way in Canada in improving efficiency in the delivery of public services. In 1975-76, Provincial spending accounted for 17.2 per cent of the Gross Provincial Product in Ontario. This year I estimate that this figure will be 15.5 per cent. That 1.7 percentage point reduction translates into $1.9 billion in the hands of the private sector. These are resources which might otherwise have been in the grip of government had we not had the gumption to implement the restraint program and stick with it.

Despite the success of our efforts, one thing which this Government cannot control is the dogged persistence of external inflationary pressures which continue to have a capricious effect on our economy. It has become apparent that, while we have made great strides in improving the efficiency of program delivery, some Provincial

Ontario's Claim on the Economy
(total Provincial expenditures as % of GPP)



programs must receive additional funds if they are to cope with inflation. While we remain unshaken in our determination to strive for even more efficiency in government, we recognize the need to accommodate these inflationary pressures by easing funding levels somewhat. There is no way that we will allow the high quality of public services in Ontario to deteriorate.

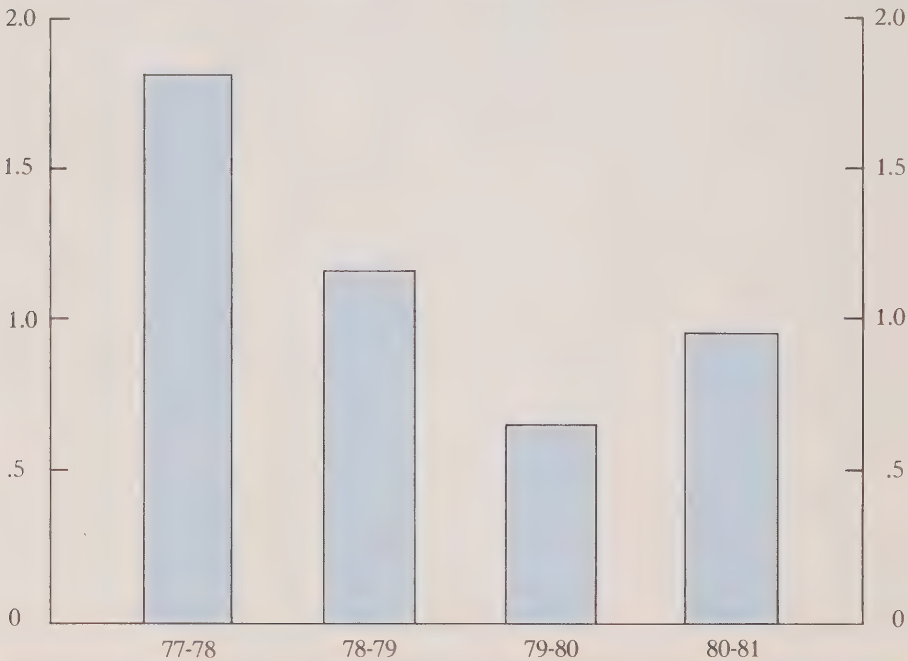
Last year it became evident that health services were beginning to experience strong cost pressures that could not all be accommodated by further efficiency measures. In 1979-80, the budget of the Ministry of Health was increased during the year by $71 million of which $60 million was earmarked for hospitals. In the new fiscal year, the Ministry of Health budget will be increased by 11.4 per cent, an increase of $487 million. This will include provision for 600 additional nursing home beds, a generous increase in compensation for family doctors, an additional $34 million for the construction and renovation of hospitals and a 40 per cent increase in expenditures on home care services.

I would like to highlight briefly some additional features of our 1980-81 expenditures. Transfer payments for developmental programs to help the mentally retarded will be increased by 27 per cent. School boards will receive a 20 per cent increase in funds for special education. Also, the budget for the daycare program will be increased by 14 per cent in order to help working mothers.

1980 Fiscal Strategy

Turning now to the overall fiscal strategy, this year I am projecting total revenues of $16,172 million, an increase of $976 million over 1979. This includes provision for negotiations with Ontario Hydro to settle the Pickering Nuclear Agreement and an additional $10 million from Provincial fees and licences to recognize higher costs. I am projecting expenditures of $17,121 million, an increase of $1,266 million, or 8 per cent. The resulting net cash requirements will be $949 million. This is somewhat more than last year's deficit. However, in a year of economic uncertainty I believe it is appropriate to allow this pause in our deficit reduction strategy.

Ontario's Cash Requirements
($ billion)



I would like to call the attention of the Members to our management of non-public borrowing. This year available funds will exceed Provincial net cash requirements, a situation that is likely to continue for at least the next few years. There is always a temptation to permit ongoing programs to gobble up these funds. In my view, however, pension funds should be invested in a way that will ensure long term benefits for our economy. Accordingly, this year the Province will make available about $500 million from the Canada Pension Plan to Ontario Hydro. This will provide Hydro with long term financing at competitive rates of interest and will reduce its need to secure capital in the Canadian and foreign bond markets. I have also indicated in

Budget Paper C that we intend to initiate discussions with all interested parties concerning the development of a more independent investment policy for the Teachers' Superannuation Fund.

Ontario's 1980-81 Fiscal Plan
($ million)

	Interim 1979-80	Estimated 1980-81	Year to Year Change
Revenues	15,196	16,172	+976
Expenditures	15,855	17,121	+1,266
Net Cash Requirements	659	949	+290
Net Non-Public Borrowing	1,545	1,096	−449
Financing Flexibility	886	147	
Net Public Borrowing	−411	−138	
Increase in Liquid Reserves	475	9	

No Tax Increases

Mr. Speaker, the citizens of Ontario are hard working people. The support they give every day to developing the economy of their province is reflected in both our quality of life and our sound financial position. With controlled and modest growth in spending on the development of essential services, this Government will ensure that maximum resources are left in the economy and that we do not contribute to inflation. Stability in our major tax rates is an essential part of the Government's fiscal strategy. The dividend flowing from the sound fiscal management of the Government of William G. Davis is that I can announce that there will be no tax increases in 1980-81.

Conclusion

Mr. Speaker, the Budget which I place before you and the Members this evening will help us to meet the economic and social needs of this province for today and will provide a firm foundation for economic prosperity and social progress throughout the new decade of the 1980s.

- It creates more job opportunities for young people.
- It provides for a needed expansion of our health care system.
- It provides new incentives for job creating investment and improved skill training.
- It provides new incentives for energy conservation.
- It opens up a new source of capital for Ontario Hydro which will help to achieve our long term energy goals.

- It combats inflation by holding down the Provincial deficit.
- It provides new incentives for small business.
- It provides a major increase in assistance to pensioners.

And, Mr. Speaker, there will be no tax increases in Ontario this year.

The Ontario Economy, 1978 through 1980

	1978	1979	1980	78/77	79/78	80/79
	($ billion)			(per cent)		
Total Output						
Gross Provincial Product	89.7	101.2	110.2	9.4	12.7	8.9
GPP (constant 1971 dollars)	49.1	50.4	50.6	2.8	2.6	0.3
Investment						
Machinery and Equipment	6.6	7.6	9.5	10.6	14.5	24.3
Non-Residential Construction	5.2	5.6	6.2	4.8	7.8	10.7
Residential Construction	3.7	3.6	3.5	−1.3	−3.0	−1.1
Other Components of Demand						
Housing Starts—Units (000)	71.7	56.9	50.4	—	—	—
Retail Sales	25.2	27.5	30.6	11.1	9.3	11.0
Exports	29.9	35.5	40.6	16.2	18.7	14.5
Imports	22.9	27.2	31.1	11.2	18.6	14.6
Income						
Personal Income	73.8	81.2	90.0	9.7	10.1	10.8
Corporate Profits (before taxes)	10.7	14.2	14.6	16.2	32.8	2.8
Prices						
Consumer Price Index	—	—	—	9.0	9.1	9.8
Jobs						
Labour Force (000)	4,147	4,289	4,381	3.8	3.4	2.1
Employment (000)	3,847	4,008	4,067	3.6	4.2	1.5
Unemployment Rate (% of labour force)	7.2	6.5	7.2	—	—	—

Source: Ontario Treasury.

Appendix A

Details of Tax Changes

The purpose of this appendix is to provide a more detailed description of the tax changes outlined in the Budget Statement. This is a concise summary only, and the reader is advised to consult the statutes for exact information.

The Corporations Tax Act, 1972

Small Business Tax Credit

- Canadian controlled private corporations qualifying for the small business deduction under subsection (1) of section 125 of the Income Tax Act (Canada) will be eligible for an Ontario income tax credit equal to 20 per cent of the cost of depreciable assets purchased at arm's length.
- The credit may be applied against corporation income tax liability up to the greater of $500 or 20 per cent of the tax payable on the income eligible for the small business deduction.
- Unused credits may not be carried forward.
- The credit will apply to qualifying assets purchased and used in Ontario after April 22, 1980 and before April 23, 1982.
- For purposes of the credit, taxable income will be prorated according to the fiscal year ends of qualifying corporations.

Capital Tax Reduction for Small Business

- The $100 flat tax will be extended to corporations with taxable capital before allocation to Ontario in excess of $200,000 and up to $1 million at the close of their fiscal years.
- A notch provision will be enacted to phase in the regular rate.

These changes will apply to the fiscal years of corporations ending after April 22, 1980. For fiscal years that include April 22, 1980, the change in taxes will be prorated on the basis of the number of days subsequent to April 22, 1980.

- In lieu of the regular capital tax rate, a flat tax of $50 per annum will apply to family fishing corporations with respect to fiscal years of corporations ending after April 22, 1980.

Investment Allowance for Loans to Related Non-Resident Corporations

- For purposes of calculating the capital tax, an investment allowance will be applicable to loans made to a non-resident related corporation, provided that the loan is outstanding for at least 120 days prior to the lending corporation's fiscal year end.

This change will apply to the fiscal years of corporations ending after April 22, 1980.

Taxation of Corporations with No Permanent Establishment in Ontario

- Clauses (2) (d) and (3) (d) of section 2 of The Corporations Tax Act, 1972, subjecting to Ontario tax non-resident corporations carrying on business in Ontario without a permanent establishment, will be repealed.

This change will apply with respect to taxation years ending after December 7, 1977.

Income Tax Rate for Professional and Personal Service Corporations

- The effective income tax rate for professional and personal service corporations will remain at 10 per cent.

Fast Write-Off for Pollution Control Equipment

- The fast write-off for pollution control equipment will be continued indefinitely. This extension parallels the federal treatment.

Fast Write-Off for Energy Efficient Equipment

- The fast write-off for energy efficient equipment will be extended for one year to include equipment acquired before 1981.

All enquiries regarding corporation tax changes should be directed to:

Corporations Tax Branch
Ministry of Revenue
Parliament Buildings
Queen's Park
Toronto, Ontario
M7A 1Y1
(416) 965-4040

The Retail Sales Tax Act

Compensation to Vendors

The minimum amount of compensation provided to retail sales tax collectors will be increased from the lesser of $3 or tax collected to the lesser of $16 or tax collected per return. In addition, the maximum compensation paid to tax collectors will be raised from $700 to $1,000 per annum.

Specific entitlements available to vendors will be as follows:

- For tax collections of $16 or less per return, the vendor will be entitled to withhold the full amount of the tax.
- For tax collections exceeding $16, the vendor will be entitled to withhold 4 per cent of tax collected or $16 per return, whichever is the greater, provided that total entitlements withheld do not exceed $1,000 in each 12-month period commencing April 1.
- For vendors with multi-branch organizations, maximum entitlement will be $1,000 in each 12-month period commencing April 1.

Effective: for tax collected on or after April 1, 1980.

Expanded Exemptions for Machinery and Equipment Used in Research and Development

Exemption will be extended to machinery and equipment purchased for the use of a manufacturer or producer exclusively and directly in research and development of goods for manufacture or production or of manufacturing or production processes, for his own use or for the use of others. Machinery and equipment used in development activities for a manufacturer's or producer's own use are already exempt.

Full details will be provided by the Ministry of Revenue.

Effective: April 23, 1980.

Rebate for Materials Incorporated into Farm Grain Storage Bins and Dryers

A full rebate of the tax paid will be available, upon application, on purchases of qualifying materials that are incorporated into new grain storage bins or structures used exclusively to dry grain by a person engaged in the business of farming. Details will be supplied by the Ministry of Revenue.

Effective: April 23, 1980.

Exemptions for Energy Conservation Materials and Equipment

The exemptions for energy conservation materials and equipment will be expanded to include:

- machinery and equipment known as "chillers" designed for use in a building's air conditioning system to recycle heat that would otherwise not be utilized;
- weather stripping and caulking materials acquired exclusively for the purpose of preventing heat loss in a building; and,
- vehicles, powered exclusively by electrical energy, hydrogen, propane, natural gas, manufactured gas or alcohol, required to be licensed under The Highway Traffic Act.

Effective: April 23, 1980.

All enquiries regarding retail sales tax changes should be directed to:

Retail Sales Tax Branch
Ministry of Revenue
Parliament Buildings
Queen's Park
Toronto, Ontario
M7A 1X9

or

the nearest Retail Sales Tax District Office. For telephone enquiries in Toronto call 487-7161.

The Gasoline Tax Act

- Exemption will be provided for alcohol when used alone, or when blended with another fuel, for the purpose of generating power by means of internal combustion.
- All natural and manufactured gases, including propane, will be exempt for all uses.

Effective: April 23, 1980.

All enquiries regarding gasoline tax changes should be directed to:

Motor Fuels and Tobacco Tax Branch
Ministry of Revenue
Parliament Buildings
Queen's Park
Toronto, Ontario
M7A 1Y3
(416) 965-0299

Discount on Licensees' Purchases of Spirits, Wines and Imported Beer

The Liquor Control Board of Ontario will provide a discount equal to 5 per cent of its retail price of spirits, wines and imported beer purchased by establishments licensed under The Liquor Licence Act. This discount will not apply to purchases made by special occasion permit holders.

Effective: May 1, 1980.

All enquiries regarding licensee discounts should be directed to:

Communications Services
Ministry of Consumer and Commercial Relations
Parliament Buildings
Queen's Park
Toronto, Ontario
M7A 2H6
(416) 963-0339

The Income Tax Act

- The rate of Ontario personal income tax will remain at 44 per cent of basic federal tax.
- The level of taxable income for purposes of the Ontario tax reduction has been set at $1,820.

Effective: for the 1980 taxation year.

Other Fees and Licences

A number of changes in fees and licences will be introduced by various ministries. Dates of changes and the new levels will be announced by the respective ministries at a later date.

Appendix B

Small Business Development Corporations

The following amendments will be made to The Small Business Development Corporations Act and Regulations:

- The minimum capital requirement for an SBDC will be reduced from $250,000 to $100,000.
- An investment in a small business will not become ineligible if, over a period of time, the number of employees of the small business grows over the 100 allowable limit up to 200. If the number of employees exceeds 200, the SBDC investment in that business will cease to be eligible after 5 years.
- The incentive will be provided in the form of a grant rather than a tax credit for credit unions, pension funds and other prescribed organizations.
- Pension funds will be considered to be ordinarily resident in Ontario if 10 per cent or more of their contributors ordinarily reside in Ontario.
- A one year carry back of the tax credit will be allowed in addition to the existing indefinite carry forward.
- On dissolution or deregistration, the interest remaining in the trust fund, required to be maintained under the Act, will be paid to the Ontario Government.
- The definition of eligible small business will be expanded to include book publishing and prescribed research and development activities.
- Businesses involved in mining or oil and gas exploration, development and production will no longer qualify as eligible investments under the SBDC legislation. A separate incentive program is proposed for mining exploration (see Appendix C). Investments already made under The Small Business Development Corporations Act will continue to qualify but will not be eligible under the new program.

These changes will be effective April 23, 1980.

All enquiries regarding the SBDC changes should be directed to:

Taxation and Fiscal Policy Branch
Ministry of Treasury and Economics
Parliament Buildings
Queen's Park
Toronto, Ontario
M7A 1Y7
(416) 965-6869

or

SBDC Program
Ministry of Revenue
Parliament Buildings
Queen's Park
Toronto, Ontario
M7A 2B3
(416) 965-1071

Appendix C

Ontario Mineral Exploration Program (OMEP)

Introduction

The Government of Ontario is introducing a new incentive program to encourage mineral exploration in the province by:

- providing part of the risk capital to the prospector or the non-producing exploration company; and,
- encouraging individual investors and non-principal business corporations to become involved in financing mining exploration.

The Incentive

- Exploration corporations not engaged in mineral production or associated with any person actively engaged in mineral production will receive a refundable income tax credit equal to 25 per cent of monies actually spent on eligible exploration in Ontario.
- Prospectors or individuals actively involved in exploration activities will receive a grant equal to 25 per cent of monies actually spent on eligible exploration in Ontario.
- Eligible corporations that are not principally engaged in exploration will receive an income tax credit equal to 25 per cent of monies actually spent on eligible exploration in Ontario. Unused credits will not be refunded but may be carried forward indefinitely.
- Individual investors will receive a grant equal to 25 per cent of monies actually spent on eligible exploration in Ontario.
- Neither the grant nor the tax credit will be subject to federal or Ontario taxes.
- To qualify for a grant, individuals must be ordinarily resident in Ontario.
- A system of registration and audit for this program will be established within the Ministry of Natural Resources.
- The Mineral Exploration Assistance Program (MEAP) will be phased out. Exploration programs already approved will continue to be eligible under MEAP but will not qualify under the new incentive program.
- An annual ceiling will be established on the total amounts of grants and tax credits under OMEP.

Eligible Expenditures

- Exploration activities leading to a production decision for a mine will qualify for the incentive. These include mineral exploration, resource evaluation, bulk sampling, metallurgical testing, or compatibility studies for a custom mill, together with other allowable expenditures as will be prescribed by regulations.
- Activities related to oil and gas, mineral aggregates (sand, gravel, stone), gypsum and associated minerals, or salt and associated minerals will not qualify.

For information regarding the policy intent and background of this program, contact:

Taxation and Fiscal Policy Branch
Ministry of Treasury and Economics
Parliament Buildings
Queen's Park
Toronto, Ontario
M7A 1Y7
(416) 965-6869

Corporations and individuals interested in receiving information about application procedures and administrative requirements should write for an explanatory pamphlet to:

OMEP
Ministry of Natural Resources
Whitney Block
Queen's Park
Toronto, Ontario
M7A 1W3
(416) 965-1062

Appendix D

Grant Programs and Income Support for Pensioners

Property Tax Grants

Eligibility

- Grants are payable each year to persons who are entitled to receive the OAS pension by January of the following year and who:
  - (a) pay property taxes in respect of their principal residence, or
  - (b) rent their principal residence.
- Pensioners residing in homes for the aged will not be eligible nor will pensioners residing in nursing homes who receive extended care benefits.
- For married couples, only one grant will be paid per couple. Only one spouse need receive the OAS pension for the couple to be eligible. For people sharing accommodation, only one grant will be paid.

Benefits

- The grant will be equal to occupancy cost or $500, whichever is less.
- Occupancy cost is property taxes paid or 20 per cent of rent paid, whichever is applicable.
- For any one housing unit, the maximum grant payable will be $500. If more than one eligible pensioner or pensioner couple reside in the unit, the grant will be apportioned in the same ratio as occupancy costs actually paid. Where non-eligible as well as eligible persons reside in the unit, property taxes must be apportioned between eligible and non-eligible persons.

Claiming Procedure

- The Ministry of Revenue will send application forms to pensioners.
- In 1980, the forms will be available in the later part of the year. Grants will be paid by year end.
- In 1981 and subsequent years, pensioners who were eligible in the previous year will automatically receive up to one-half of the previous year's entitlement in the earlier part of the year. In the later part of the year, application forms will be sent out for completion by eligible pensioners to entitle them to receive the balance of their grant.
- Pensioners who rent will be required to produce receipts. Homeowners will not be required to provide receipts, as tax records will be available to verify eligibility.

Sales Tax Grants

Eligibility

- Every person entitled to receive an OAS pension will receive a $50 grant.

Claiming Procedure

- Pensioners will not have to apply for this grant. It will be automatically mailed to them on the basis of their OAS eligibility.

Eligibility for Ontario Tax Credits

- For 1980 and subsequent years, persons eligible to receive OAS will not be entitled to claim Ontario Tax Credits, except for the Political Contribution Tax Credit.
- Persons whose spouses receive the OAS pension will not be eligible for Ontario Property Tax Credit benefits. However, they may still claim an Ontario Sales Tax Credit.

GAINS Payments

- Beginning in May, 1980, the GAINS portion of the income guarantee will be increased by $10 per month for single pensioners and $20 per month for pensioner couples. Consequently, the guaranteed monthly income will be $389 for a single pensioner and $758 for a pensioner couple as of May 1, 1980.
- This increase will be paid automatically to eligible pensioners and will be included in their May cheques.

For information regarding the grant programs and the GAINS program, contact:

Guaranteed Income and Tax Credit Branch
Ministry of Revenue
Queen's Park
Toronto, Ontario
M7A 2B3

In Metro Toronto — dial 965-8470

In area code 807 — ask the Operator for Zenith 8-2000

All other areas — dial 1-800-268-7121

Appendix E

Retail Sales Tax Rebates to Purchasers of 1979 Model Motor Vehicles

Background

Canadian motor vehicle sales were strong in 1979; by contrast, U.S. sales were off sharply, resulting in industry-wide layoffs across North America. Canadian sales prospects for early 1980, although still relatively strong, were clouded by concerns that a similar slump would soon set in. Extraordinarily high inventories of previous year's models posed a formidable obstacle to dealers' efforts to sell 1980 vehicles.

Ontario's Program

Dealers had made considerable efforts to clear these inventories with only partial success. To augment their efforts, Ontario introduced a program of retail sales tax rebates for purchasers of new 1979 model motor vehicles on January 31, 1980. A full rebate of the 7 per cent retail sales tax, up to a maximum of $700, was made available to purchasers of automobiles, and trucks with a maximum gross vehicle weight not exceeding 4,600 kg. Purchases made prior to March 2, 1980 and delivered from January 31 to March 8, 1980 inclusive were eligible.

Effectiveness of the Program

Approximately 17,500 rebates were paid on eligible 1979 model vehicles sold during the month. The three largest North American automakers alone sold almost 80 per cent of the previous model year vehicle inventories in place at the end of January, 1980 compared to only 52 per cent in 1979. Further, less than one-half of the remaining 1979 vehicle stock was sold this year in the rest of Canada. By the end of the program, 1979 model inventories held by General Motors, Ford and Chrysler had been reduced to less than 4,600, compared to well over 17,000 a month earlier.

The sales gains generated by this program were accomplished with no serious repercussions for 1980 model car sales. Dealer feedback confirms that showroom traffic improved considerably, even for dealers with little or no 1979 model inventory. Total Ontario car sales in February were up more than 17 per cent over the previous year's performance, while they were off by well over 9 per cent in the rest of

The Auto Rebates for 1979 Model Motor Vehicles, Inventory and Sales Effects

	Opening Inventories	Sales: Units	Sales: % of Inventory	Closing Inventories
"Big Three"				
cars	12,132	10,176	83.9	2,536
trucks	5,040	3,273	64.9	2,026
Others	n.a.	4,051	n.a.	n.a.
Total	n.a.	17,500	n.a.	n.a.

Source: Motor Vehicle Manufacturers, Ontario Ministry of Revenue, and Ontario Treasury estimates.

n.a. means "not available."

the nation, and by almost 16 per cent in the U.S. March sales growth in Ontario, while lower than the impressive performance in 1979, continued to be stronger than in the rest of the country or in the U.S.

The rebates averaged about $475. When adjusted for trade-in value, this represents an average new vehicle price of about $7,700. An analysis of a sample of rebate applications also shows that 19 per cent of passenger cars sold were equipped with 4 cylinder engines, 12 per cent with 6 cylinder engines and 69 per cent with 8 cylinder engines. These patterns reveal that the additions to vehicle stock during the program carried prices far below the average for all new vehicles. However, while the proportion of 4 cylinder vehicles was representative of the total vehicle stock, fewer 6 cylinder and more 8 cylinder vehicles than usual were sold.

Principal Characteristics of Qualifying Passenger Cars

Engine Size	Eligible for Rebates	
(no. of cylinders)	(%)	(units)
4	19	3,325
5-6	12	2,100
8 or more	69	12,075
AVERAGE REBATE		$475
AVERAGE UNIT SELLING PRICE		$7,683

Source: Ontario Ministry of Revenue Rebate Sample Analysis.

A review of inventory levels at the commencement and termination of the program, and of sales during the month of February, confirms that few vehicles were brought into the Ontario market by dealers during the program.

Conclusion

The program resulted in a pronounced reduction in high cost inventories of 1979 model vehicles in Ontario. This improvement cut car dealer overhead. Also, greater consumer interest in new car purchases was generated. The market outlook for 1980 has thus been improved. The program cost of $8.3 million will be reduced by additions to other revenues over the coming year, since improved dealer and industry performance will generate sales, income and other tax revenue feedbacks which otherwise might not have occurred.

Budget Papers

Presented for the information of
the Legislative Assembly of Ontario
by the Honourable Frank S. Miller,
Treasurer of Ontario and
Minister of Economics, April 22, 1980

Budget Paper A

Equalization and Fiscal Disparities in Canada

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Equalization and Fiscal Disparities in Canada

Introduction

Canadians have long accepted the principle of inter-regional sharing of wealth and incomes. Programs are in place at the national level for putting into practice this vital principle. Through the revenues and expenditures of the federal government, substantial sums of money are transferred annually from the more affluent parts of the country to individuals, businesses, and governments in the less advantaged regions.[1] This system of sharing has relied on the federal government's historically pre-eminent position in the major revenue fields.

The rapid rise of oil and gas prices since 1973 has added a new dimension to the problem of inter-regional sharing. The massive transfer of purchasing power from the oil and gas consuming provinces to the producing provinces is limiting economic growth in the consuming regions. The flow of royalties has expanded the capacity of governments in the Western-most provinces to improve services and reduce taxes. On the other hand, the federal government finds itself without a sufficient share of oil and gas revenue sources to promote regionally balanced growth and development in Canada, and ensure reasonable harmony in provincial taxation levels. The economic and fiscal imbalances now emerging among the regions and governments of Canada will reach serious proportions in the 1980s unless further oil and gas price increases are accompanied by significantly revised arrangements for sharing and deploying the resource rents that are generated by higher prices.[2]

Energy developments have already begun to play havoc with the existing mechanisms of inter-regional sharing. This is nowhere clearer than in the important federal-provincial revenue equalization program, under which the federal government currently transfers more than $3 billion annually to the governments of the less wealthy provinces. The magnitude of the resource revenues flowing to the oil and gas producing provinces has already forced Ottawa into ad hoc adjustments to contain the costs of this program, and to preclude such anomalous results as

[1]See the Hon. W. Darcy McKeough, "Federal Fiscal Redistribution Within Canada", Budget Paper E, *Ontario Budget 1977* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1977).

[2]For Ontario's position on energy pricing and related arrangements, see the Hon. William G. Davis, *Oil Pricing and Security: A Policy Framework for Canada*, August, 1979.

Ontario suddenly qualifying as a "have-not" province. The result is a program that, while still sound in intent, is badly in need of reform. The current program expires on March 31, 1982.[3] A federal-provincial committee has already been established to develop proposals for reform to be considered by the Ministers of Finance.

This paper is a contribution by Ontario to the work of the committee, and to wider public understanding and debate. Its primary focus is the relationship between equalization and the distortions created by the energy situation. Part I reviews the current equalization formula as a background to the examination, in Part II, of the major problems posed by recent and future increases in the size of the Western resource royalties. Part III introduces a number of options for improving the program within the broader context of new approaches to inter-regional sharing.

I Equalization: The Current Approach

The purpose of equalization payments was clearly expressed in 1966 by the Honourable Mitchell Sharp, Minister of Finance, when he said:

> "They represent one of the dividends of Canadian unity, designed as they are to enable all Canadians to enjoy an adequate level of provincial public services. Where circumstances — whether natural or man-made — have channelled a larger than average share of the nation's wealth into certain sections of the country, there should be a redistribution of that wealth so that all provinces are able to provide to their citizens a reasonably comparable level of basic services, without resorting to unduly burdensome levels of taxation."[4]

The equalization program is financed wholly by Ottawa, but the basis for federal calculation of entitlements is the comparative revenue raising capacity of provincial governments. This provides a measure of the relative fiscal strength of provinces.

Tables 1 and 2 indicate the significance of the equalization program. In 1979-80, $3.1 billion in equalization was paid to seven provinces. This amount represented approximately 18 per cent of federal personal income tax collections, 6 per cent of federal budgetary expenditures, or no less than one-quarter of all federal transfers to the provinces. As a national commitment, equalization has grown from 0.4 per cent of Gross National Product in the late 1950s to over 1.2 per cent in recent years. One-half of all equalization paid goes to Quebec, but in per capita terms Quebec receives much less than any of the Atlantic provinces. As well, it should be noted that in the Atlantic region payments this year will account for as much as 28 per cent of provincial budgetary revenues. This latter fact

[3]The program is authorized by Part I of the *Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977.*

[4]Statement by the Hon. M. W. Sharp to the Federal-Provincial Tax Structure Committee, Ottawa, September 14 and 15, 1966.

Growth of Equalization Payments — Table 1

Fiscal Year	Total Payments to Recipients	Annual Increase*	Share of GNP
	($ million)	(%)	(%)
1957-58	139	—	0.41
1966-67	355	11.0**	0.57
1967-68	552	55.6	0.83
1968-69	708	28.1	0.97
1969-70	849	20.0	1.06
1970-71	884	4.0	1.03
1971-72	940	6.4	0.99
1972-73	1,069	13.8	1.02
1973-74	1,482	38.6	1.20
1974-75	1,708	15.2	1.16
1975-76	1,877	9.9	1.13
1976-77	2,025	7.9	1.06
1977-78	2,587	27.8	1.24
1978-79	2,858	10.4	1.24
1979-80	3,118	9.1	1.21

*These percentages reflect numerous program changes.

**Nine-year average.

Equalization Entitlements, 1979-80 — Table 2

Provinces	Total Entitlement	Entitlement Per Capita	Percentage of Provincial Budgetary Revenue*
	($ million)	($)	(%)
Newfoundland	344	599	26
Prince Edward Island	79	644	28
Nova Scotia	419	495	26
New Brunswick	356	507	24
Quebec	1,574	250	12
Ontario	**	0	0
Manitoba	295	286	14
Saskatchewan	52	54	2
Alberta	**	0	0
British Columbia	**	0	0
Total Payable	3,118		

*As shown in provincial budgets, 1979-80.

**Non-recipient provinces.

helps explain the importance of federal-provincial negotiation when changes to this vital program are considered.

The current approach to equalization dates from 1967.[5] The present formula makes no attempt to define and cost the "basic public services"

[5]The standard reference is Douglas H. Clark, *Fiscal Need and Revenue Equalization Grants,* Canadian Tax Foundation, 1969.

and "comparable standards" that appear in the statement of objectives. Expenditure needs are simply assumed to be proportional to population. Moreover, no attempt is made to define or measure "unduly burdensome levels of taxation." Instead, the program focuses on compensating those provinces that have a revenue raising capacity below the national average.

There are two basic approaches to measuring revenue raising capacity, the income approach and the representative tax approach.[6] The *income approach* measures the aggregate "pool" of dollars that are available to be taxed, as indicated by personal income, total personal and corporate income, or Gross Domestic Product. The higher the income per capita, the greater the fiscal capacity. On the other hand, the *representative tax approach,* currently used for calculating equalization, takes actual tax structures into account in determining a province's ability to raise revenues. The two approaches do not always lead to the same conclusions. In fact, the energy situation has driven the two systems farther apart. Under an income approach, Ontario would be classified as a "have" province because of its above average per capita income. By contrast, under the representative tax system, it is now classified as fiscally deficient because of the current, overwhelming importance of the oil and gas revenue sources, none of which are available to Ontario.

Under the representative tax system of measuring revenue raising capacity, a representative tax base is defined for each provincial revenue source. For example, the national base for the retail sales tax is total retail sales in the provinces, minus sales of food, children's clothing and other items that are normally tax exempt. Each province's share of the combined provincial tax base is then subtracted from its share of the total Canadian population to derive either a *fiscal capacity excess* ("have" province) or *deficiency* ("have-not" province) in respect of that particular revenue source. This excess or deficiency is subsequently applied to the total revenues of *all* provinces from this revenue source to obtain either a negative or positive entitlement. To illustrate, Newfoundland's equalization entitlement in respect of the personal income tax in 1979 is computed as follows:

$$\begin{array}{l}\text{Equalization}\\ \text{of personal}\\ \text{income tax}\end{array} = \left[\begin{array}{l}\text{all provinces'}\\ \text{revenues from}\\ \text{personal income tax}\end{array}\right] \times \left[\text{N's \% pop.} - \text{N's \% tax base}\right]$$

$$= [\ \$10{,}700 \text{ million}\ ] \times [2.43\% - 1.30\%]$$

$$= \$121 \text{ million}$$

Equalization entitlements for each province are calculated in respect of all 29 revenue sources now used by the provinces, including

[6]See James H. Lynn, *Comparing Provincial Revenue Yields*, Canadian Tax Foundation, 1968.

nine separate natural resource revenue sources. Positive and negative entitlements are summed, and equalization is payable only if a province's net position is positive. For many years, Ontario, Alberta and British Columbia, despite being "have-not" provinces in certain revenue fields, had aggregate entitlements that were negative, and therefore did not qualify as recipients. Table 3 displays all of the revenue sources employed in the calculation process, and the positive and negative entitlements for each of the provinces in 1979-80. From this table, it can be ascertained, for example, that even though Newfoundland has a surplus capacity in mineral revenues and water power rentals, its overwhelming deficiencies in virtually all major revenue sources provide it with a large overall entitlement. Conversely, British Columbia's deficiency in Crown oil is significantly overshadowed by its excess capacities elsewhere.

The equalization formula determines simultaneously both the total amount payable by the federal government and the distribution by province. The system is driven by shifts in the economy, by provincial tax policy decisions, and by population changes. The commitment to equalize to the "national average" required that the formula be sufficiently open and flexible to respond to all of these circumstances. The formula thus left the federal government vulnerable to developments on the energy front.

II The Impact of Natural Resource Revenues

The rapid escalation of oil and gas revenues has put severe strains on the equalization program. The issues that have arisen include:

- Federal ability to pay;
- Ontario eligibility;
- The unique position of Alberta;
- The emergence of over-equalization; and,
- Inequitable funding arrangements.

Federal Ability to Pay

Since 1973, oil and gas revenues accruing to the producing provinces have increased substantially. To illustrate, Alberta's annual resource revenues jumped from $340 million in 1972 to nearly $4.7 billion in 1979. In contrast, the federal government has only limited access to revenues from natural resources.[7] The very sudden and rapid

[7]Under Section 91(2) of the British North America (BNA) Act, the federal government has the power to regulate trade and commerce, and under Section 91(3) it has wide taxing powers; but Sections 109, 117, 92(5) and 92(13) give the provinces ownership of natural resources and the capacity to "manage" these resources. Section 125 generally precludes the federal government from taxing a Crown agency, such as a provincial energy corporation or a heritage fund.

Table 3

Equalization Entitlements by Revenue Source and Province, 1979-80

($ thousand)

Revenue Sources	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Receiving Provinces
Personal Income Taxes	121,470	25,881	119,477	120,176	229,377	−425,853	93,058	85,914	−163,293	−206,206	795,353
Business Income Revenues	39,310	9,065	51,621	45,609	132,546	−64,902	20,032	20,180	−197,028	−56,433	318,363
General Sales Tax	42,075	10,241	47,448	32,577	183,737	−41,116	37,640	10,544	−206,530	−116,616	364,262
Tobacco Taxes	4,614	469	4,604	722	−19,935	14,595	4,084	6,075	−18,901	3,673	633
Gasoline Taxes	10,273	34	3,034	−1,423	22,756	−6,522	3,407	−3,339	−25,643	−2,578	34,742
Diesel Fuel Taxes	1,735	1,097	1,968	532	7,565	1,458	1,776	−2,060	−14,136	66	12,613
Non-Comm. Vehicle Licences	6,242	253	3,791	2,700	7,512	−4,573	−1,185	−7	−7,897	−6,837	19,306
Commercial Vehicle Licences	3,318	801	4,201	1,021	43,477	27,957	−4,545	−13,706	−47,605	−14,919	34,567
Revenues from Sale of Spirits	3,595	−703	−910	7,799	75,310	−23,046	−5,919	−5,686	−23,456	−26,984	73,486
Revenues from Sale of Wine	3,997	583	2,985	3,886	−5,012	2,671	1,838	3,873	−822	−14,001	12,150
Revenues from Sale of Beer	185	374	1,904	2,712	−11,490	−222	887	3,513	3,173	−1,037	−1,915
Hospital/Medical Ins. Premiums	4,639	799	1,162	1,980	21,534	−35,186	3,945	7,061	1,804	−7,737	41,120
Succession Duties/Gift Taxes	1,487	296	1,577	1,612	1,184	−6,155	1,456	784	−1,686	−554	8,396
Race Track Taxes	2,421	131	2,269	2,160	4,319	−13,710	871	3,148	−2,364	754	15,319
Forestry Revenues	−1,264	2,665	15,650	−1,800	43,487	108,804	17,679	13,581	32,730	−231,532	89,998
Crown Oil Revenues	29,055	6,216	42,869	35,474	318,837	430,249	49,826	−88,872	−917,241	93,587	393,405
Freehold Oil Revenues	1,482	317	2,186	1,809	16,257	21,483	632	−5,741	−44,871	6,445	16,942
Crown Gas Revenues	22,080	4,724	32,578	26,934	242,297	324,854	39,640	20,327	−684,043	−29,391	388,580
Freehold Gas Revenues	596	127	879	728	6,537	8,622	1,069	867	−22,014	2,589	10,803
Sales of Crown Leases*	6,724	1,439	9,921	8,212	73,790	99,524	12,072	−1,038	−185,716	−24,929	111,120
Other Oil and Gas Revenues	1,107	237	1,633	1,351	12,148	16,338	1,943	−1,261	−34,405	907	17,158
Mineral Revenues	−15,026	1,049	2,282	2,342	11,544	9,054	3,649	−12,135	9,963	−12,724	−6,295
Water Power Rentals	−9,285	294	1,841	1,182	−5,611	10,860	−1,642	1,675	4,366	−3,681	−11,546
Insurance Premium Taxes	2,392	359	1,995	1,105	−5,089	−1,370	1,539	1,467	−2,440	43	3,768
Payroll Taxes	5,190	1,162	4,255	4,561	9,869	−25,525	2,291	5,415	−1,539	−5,679	32,743
Property School Taxes	34,057	6,665	36,284	32,212	97,885	−111,411	2,960	−685	−56,947	−41,020	209,378
Lottery Revenues	1,991	336	1,399	1,589	3,880	−7,830	433	612	−205	−2,204	10,240
Miscellaneous Provincial Taxes	19,112	4,142	19,700	17,538	56,695	−53,982	5,305	737	−50,735	−18,512	123,229
Shared Federal Revenues	270	0	340	295	−1,018	−17	76	274	−227	8	237
Total Entitlement	343,842	79,053	418,943	355,595	1,574,388	255,049**	294,817	51,517	−2,657,708**	−715,502**	3,118,155

*Reflects first stage of two year phase-out.

**Ontario not included in aggregate for receiving provinces. A negative total does not represent a liability but rather a zero entitlement

increases in revenue from oil and gas for a few provinces have therefore placed a severe strain on the federal government's ability to pay the resulting equalization.

Equalization entitlements in total have grown by 16 per cent a year since 1972, considerably outpacing growth in the economy generally. More significant, however, has been the growth of the payments relating to the natural resource revenues. Despite limiting features discussed below, these payments grew by 29 per cent per year over the period, and their share of total equalization grew from 17 per cent in 1973 to over 30 per cent in 1979. As shown in Table 3, oil and gas revenues already generate substantially more equalization than the corporate and retail sales taxes combined. Yet oil and gas revenues account for only 7 per cent of provincial revenues to be equalized.

The massive levering effect of oil and natural gas revenues on equalization is explained by their uneven distribution among the provinces, as well as by the fact that the greater proportion of the country's population resides in the consuming regions. In respect of oil and natural gas, seven provinces, with over 75 per cent of the national population, have a share of the tax base which is effectively zero.This means they have an entitlement equal to their population share of the equalized oil and gas revenues of the producing provinces. The inescapable result is very high federal payment liabilities. To illustrate, in the absence of any constraints, a $1.00 increase in Crown gas revenues would currently generate a federal obligation of over 78 cents in equalization, whereas a $1.00 increase in non-resource revenues would generate less than 7 cents.[8]

With no built-in indication of what provinces really require for the "basic" public services, there is no upper bound on how much equalization should be paid. With need implicitly defined as the population share of total provincial revenues, and with provincial oil and gas revenues skyrocketing, equalization payments could have grown without limit. This threatened a situation where huge federal tax increases would have been required as a consequence of provincial oil and gas fortunes just to pay the additional equalization. Without any constraints, equalization would have risen to over $5.6 billion in 1979-80, almost $2.5 billion more than has actually been paid.

The federal government, recognizing that it did not have a sufficient share of the oil and gas revenue sources to be able to afford such enormous resource generated increases in equalization, therefore acted quickly to contain the impact of resource revenues on the equalization program. In the first of several ad hoc responses, it "froze" oil and gas royalties at their 1973-74 level, adjusted for volume, and

[8]In the extreme, if all oil and natural gas were located in Prince Edward Island, every dollar increase in royalties flowing to the P.E.I. government would produce federal equalization liabilities of over 99 cents.

between 1974 and 1977 equalized only one-third of the royalties above that level. In the 1977 Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, revenues from non-renewable natural resources were declared equalizable to the extent of 50 per cent of their value, and equalization in respect of all natural resources was limited to one-third of total equalization payable. Finally, partly as an economy measure, and partly to forestall Ontario's entry into equalization, the federal government decided to eliminate, over a two-year period, the revenue source called "Sale of Crown Leases." This measure alone is estimated to reduce equalization payments by $111 million in 1979-80 and double this amount in 1980-81.

Ontario Eligibility

Another result of natural resource developments is that, in the absence of another ad hoc measure, Ontario would become eligible for equalization under the representative tax formula.

According to the latest calculations, Ontario would be entitled to a total of $567 million in respect of the fiscal years 1977-78, 1978-79 and 1979-80. A conservative estimate for 1980-81 puts the Ontario entitlement at $250 million for a cumulative amount of over $800 million. The fact that Ontario would be eligible, even with non-renewable resource revenues discounted by 50 per cent, indicates that the current formula no longer makes sense in terms of its basic objectives. On the tax capacity side, the income approach affirms that this province is still well within the "have" category; personal income per capita in Ontario in 1979 is estimated to be 9 per cent above the national average. And, if an objective measure could be developed, there is little question that Ontario would be shown to rank among the highest in terms of the provision of basic services.

To make certain that Ontario would not receive equalization, the federal government introduced legislation in late 1978 which would have precluded a province from receiving equalization payments if it had a per capita income above the national average in each of the prior three years. This legislation died on the Order Paper of the 30th Parliament, but identical legislation is to be introduced into the 32nd Parliament with retroactive effect. Ontario has thus far accepted it should not qualify for equalization related to the provision of "basic" public services — but, as suggested below, the current level of equalization is doing more than just helping with the provision of such services.

The Unique Position of Alberta

The new-found wealth of the producing provinces is remarkable. Even at present oil and gas prices, Alberta's oil and gas revenues are approaching $5 billion per year. Saskatchewan receives over $300

million in oil revenues, and British Columbia takes in more than $400 million from its natural gas sources.

Alberta already has among the best provincial and local government services in Canada. It has no sales tax, no gasoline tax, no residential property tax for school purposes, and by far the lowest individual and corporate income taxes. Its 1979 budget retired virtually all municipal debt. In fact, Alberta could abolish all its conventional tax sources, and still have access to more revenues on a per capita basis than most other provincial governments. This is the situation today, with Canadian oil prices at half world levels. Moreover, economic growth and diversification built on the energy base are leading to a rapid improvement in Alberta's relative fiscal capacity in most of the conventional tax sources. To illustrate, Alberta's share of the population increased by less than 2 percentage points between 1972 and 1979, yet its share of the personal income tax base grew from 7 per cent to 10 per cent; its share of the corporate income tax base grew from 9 per cent to 16 per cent; and, while it has no retail sales tax, its share of the retail sales tax base grew from 9 per cent to 12 per cent. In the latter two sources, Alberta was already significantly above the national average in 1972.

Table 4 indicates the fiscal disparities that could emerge in Canada over the next several years, assuming alternative energy price increases but no fundamental restructuring of current revenue flows. Revenues have been projected on the basis of regional economic forecasts, while expenditures have been assumed to grow no faster than GNP in the consuming provinces and somewhat faster than this in Alberta. Under price increases of two dollars per annum, the surplus of the producing provinces will be about $5.0 billion in 1981-82, while the deficits of the other provinces will exceed $3.9 billion. Under price increases of four dollars per annum, the surpluses climb to over $6.5 billion and the deficits reach $4.1 billion. The total disparity, or fiscal gap, between the surplus and deficit provinces could easily double within two years. These projections imply even greater disparities in growth, taxes and service levels between Alberta and the other provinces than exist at the present time.

The Economic Council of Canada has recently expressed concern about the unprecedented fiscal imbalances that are emerging in Canada.[9] Unchecked, these imbalances will inevitably lead to new tensions in Confederation. Over previous decades, the federal government has sought to modify regional disparities, ensure economic stability, and achieve nation-wide sharing of the benefits of economic growth. This was made possible by the federal government's access to the main revenue sources, and by the fact that the majority of the population lived in the dynamically growing regions. With insufficient

[9]The Economic Council of Canada, *Two Cheers for the Eighties*, Sixteenth Annual Review, 1979, chapter 4.

Growing Fiscal Disparities

Table 4

($ million)

			Projections Under Increase in Domestic Oil Price of			
			$2 per annum		$4 per annum	
	1978-79	Estimated 1979-80	1980-81	1981-82	1980-81	1981-82
Oil and Gas Provinces' Annual Surpluses	+2,347	+2,400	+4,300	+5,000	+5,100	+6,550
Other Provinces' Annual Deficits	−2,605	−2,050	−3,200	−3,950	−3,325	−4,100
Total Fiscal Disparity between Producing and Non-Producing Provinces	4,952	4,450	7,500	8,950	8,425	10,650
Net Fiscal Position of Provincial Sector	−258	+350	+1,100	+1,050	+1,775	+2,450
Federal Deficit	−12,103	−11,500	−12,000	−12,600	−12,300	−13,400
Net Fiscal Position of Federal-Provincial Sector	−12,361	−11,150	−10,900	−11,550	−10,525	−10,950

Source: Ontario Treasury projections based on data using a modified Financial Management Series concept.

Notes:
1. Economic performance over the projection period in the base case ($2 per barrel or equivalent) is assumed to be similar to the average achieved over the past five years.
2. Revenue yields are related to the performance of key economic variables and energy prices.
3. Expenditures are projected to grow at 1 percentage point less than nominal growth in the national economy. This is in keeping with the commitment made by the First Ministers to hold spending below the rate of growth of the national economy. Alberta's spending is assumed to grow at 3 percentage points above the rate in other provinces in recognition of its rapid economic growth and need for infrastructure.
4. The 1979-80 surplus shown for producing provinces is substantially underestimated due to the Alberta extraordinary expenditure of approximately $1 billion re municipal debt retirement.

fiscal capacity in the natural resource fields, and the base of growth too narrowly concentrated, the long run ability of the federal government to ensure inter-regional sharing is being seriously undermined.

As noted earlier, the growing economic and fiscal disparities between the producing and consuming provinces underscore the need for new arrangements for inter-regional sharing. In addition, the Western royalty fortunes have distorted the very meaning of "comparable services" implicit in the current equalization program. Previously accepted notions of basic services have been "levered up" because the equalization formula generated entitlements unconstrained by agreed measures of need. In other words, the traditional recipient provinces began to receive an equalization "windfall" as a result of increases in the price of oil and gas.

Until the early 1970s, it was reasonable to assume that the national average would be determined by British Columbia, Ontario and Quebec, given that these provinces collectively account for nearly three-quarters of the total population of the country. However, when the norms can be so radically skewed by a province with less than 9 per cent of the population, the real objectives of the program begin to lose their focus. In fact, this levering effect is understated because of the low tax effort in Alberta — were Alberta to impose national average tax rates, equalization to the poorer provinces would, of course, go up even further. To address the extreme inequality created by a super-rich province with a small share of the population, all provinces could in theory be equalized to the revenue raising capacity of the wealthiest province. However, with the present formula, this would require a doubling of the federal government's total revenues.

The Emergence of Over-Equalization

The continued inclusion of rapidly growing oil and gas revenues may have resulted in over-equalization of the current recipient provinces. As explained, these provinces have by and large enjoyed fairly dramatic increases in equalization even though the demands for, and costs of, provincial government services may not have gone up proportionately. Moreover, this process has been superimposed on a long history of implicit equalization, under which the poorer provinces received effectively higher rates of cost-sharing support,[10] and relatively generous assistance through the federal-provincial programs falling within the mandate of the Department of Regional Economic Expansion.

In 1976, the federal government stated that "the present equalization formula provides a level of payment that appears to be meeting the

[10]See the Hon. Charles MacNaughton, "The Structure of Public Finance in Ontario", Budget Paper B, *Ontario Budget 1970* (Toronto: Ontario Department of Treasury and Economics, 1970).

program's objective."[11] If this is accepted, it might be inferred from the recent, relatively high equalization growth rates to certain recipients that the program is now over-delivering to some extent. Also, the representative tax system in 1979-80 delivered to the recipient provinces some $628 million more than they would have received under an income approach based on provincial Gross Domestic Product. In a similar vein, Ontario's eligibility under the representative tax system strongly suggests that considerable over-equalization has taken place since energy prices first erupted in 1973.

Provincial Government Revenues by Province — Table 5

($ per capita)

	Nfld.	P.E.I.	N.S.	N.B.	Que.*	Ont.	Man.	Sask.	Alta.	B.C.
1973-74	1,045	1,223	969	1,050	889	935	958	991	1,176	1,022
1974-75	1,291	1,398	1,113	1,213	1,280	1,108	1,110	1,409	1,872	1,233
1975-76	1,476	1,664	1,293	1,419	1,451	1,226	1,314	1,591	2,089	1,367
1976-77	1,674	1,794	1,458	1,522	1,699	1,418	1,524	1,766	2,535	1,662
1977-78	1,877	1,946	1,599	1,612	1,942	1,489	1,590	1,964	3,260	1,873
1978-79	2,071	2,022	1,772	1,862	2,142	1,636	1,714	2,225	3,987	2,047
1979-80	2,316	2,218	1,972	2,072	2,420	1,820	1,988	2,456	4,585	2,350

Source: Data up to 1976-77 are based on Statistics Canada, Catalogues 68-202 and 68-207. Data for subsequent years are Ontario Treasury estimates.

*Quebec data exclude Quebec Pension Plan collections.

Consolidated Provincial-Local Government Revenues by Province — Table 6

($ per capita)

	Nfld.	P.E.I.	N.S.	N.B.	Que.*	Ont.	Man.	Sask.	Alta.	B.C.
1973-74	1,091	1,279	1,152	1,097	1,254	1,220	1,205	1,251	1,494	1,306
1974-75	1,355	1,431	1,308	1,263	1,533	1,425	1,412	1,678	2,207	1,556
1975-76	1,568	1,751	1,519	1,501	1,735	1,598	1,690	1,902	2,472	1,769
1976-77	1,810	1,894	1,691	1,641	2,042	1,862	1,971	2,144	2,986	2,143
1977-78	2,011	2,074	1,860	1,733	2,299	1,992	2,070	2,408	3,861	2,400
1978-79	2,214	2,198	2,054	1,981	2,538	2,184	2,279	2,713	4,629	2,647
1979-80	2,466	2,398	2,288	2,203	2,861	2,411	2,602	2,988	5,231	2,994

Source and Footnote: See Table 5.

Table 5 presents data on the per capita revenues available to provincial governments. This information has to be interpreted very carefully, inasmuch as it subsumes important structural differences among the provinces. Nevertheless, it is interesting to note that Ontario has the lowest per capita revenues of any province, and that the gap between the Eastern provinces and Ontario has actually widened over the decade. Table 6 presents data on the per capita revenues of provincial and local governments combined. In this comparison, only the three Maritime provinces record per capita revenues slightly below those in Ontario. Furthermore, if municipal revenues were equalized,

[11] The Hon. D. S. Macdonald, "Notes for a Statement on the Provincial Revenue Equalization Program", Meeting of Federal-Provincial Ministers of Finance and Treasurers, July 6, 1976.

Ontario would undoubtedly come close to having the lowest revenue per capita here too.

As provincial governments vary in terms of deficits and surpluses, similar comparisons are made for per capita spending in Tables 7 and 8. Ontario is the lowest in respect of provincial government spending, and is surpassed by all except the three Maritime provinces in respect of spending by the provincial-local sector as a whole.

Provincial Government Expenditures by Province — Table 7

($ per capita)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.
1973-74	1,142	1,209	976	1,033	1,022	972	949	882	1,035	913
1974-75	1,459	1,421	1,121	1,274	1,256	1,193	1,141	1,188	1,379	1,216
1975-76	1,794	1,752	1,364	1,535	1,582	1,402	1,394	1,457	1,690	1,556
1976-77	1,924	1,793	1,493	1,649	1,773	1,542	1,582	1,710	2,022	1,597
1977-78	2,081	2,029	1,652	1,832	1,948	1,671	1,748	1,902	2,287	1,760
1978-79	2,242	2,108	1,843	1,977	2,171	1,784	1,770	2,094	2,586	1,926
1979-80	2,556	2,216	2,068	2,184	2,390	1,941	2,008	2,305	3,405	2,159

Source: Data up to the end of 1976-77 are based on Statistics Canada, Catalogues 68-202 and 68-207. Data for subsequent years are Ontario Treasury estimates.

Notes: 1. Expenditures related to the Quebec Pension Plan and Quebec Family and Youth Allowances have been eliminated in order to be comparable with the other provinces.

2. The growth rate for Alberta provincial per capita expenditures in 1979-80 is larger than for consolidated expenditures because the former includes the provincial expenditures involved in the municipal debt reduction program.

Consolidated Provincial-Local Government Expenditures by Province — Table 8

($ per capita)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.
1973-74	1,195	1,322	1,173	1,111	1,264	1,302	1,197	1,146	1,370	1,300
1974-75	1,534	1,456	1,365	1,377	1,555	1,566	1,481	1,509	1,802	1,611
1975-76	1,908	1,879	1,654	1,684	1,863	1,832	1,837	1,835	2,201	2,015
1976-77	2,089	1,869	1,773	1,847	2,190	2,020	2,095	2,153	2,637	2,171
1977-78	2,245	2,142	1,972	2,015	2,381	2,216	2,257	2,413	3,151	2,426
1978-79	2,311	2,262	2,295	2,317	2,630	2,378	2,397	2,635	3,598	2,675
1979-80	2,620	2,374	2,460	2,357	2,889	2,579	2,694	2,863	4,050	3,026

Source and Notes: See Table 7.

Inequitable Funding Arrangements

The aforementioned issues taken together suggest that the financing of equalization has become inequitable. Federal taxpayers in Ontario end up paying a large part of the bill for the increasing equalization that automatically flows to the East as a result of the increased royalties to the West.[12] At the same time, those who benefit most

[12] If 1973-74 is taken arbitrarily as a base year, and energy-generated equalization is constrained to grow at the rate of increase of non-energy equalization, "windfall" equalization can be isolated as, very roughly, $525 million in 1979-80. Taxpayers in Ontario would account for about $225 million of this. Thus, each person in Ontario could be said to be paying $25 extra to subsidize people in the recipient provinces, as a result of price developments in oil and natural gas.

from natural resource revenues escape paying a commensurate share of the cost, and those who receive windfall equalization are able to expand services beyond the traditionally accepted "basic level." Table 9 displays certain financial flows relating to oil and gas. Each two dollar increase in the price of oil is estimated to drain $640 million out of the Ontario economy directly. But, currently, there is an additional drain of over $70 million to finance federal equalization payments to the recipient provinces. Thus, while the recipient provinces receive partial compensation for energy price increases, Ontario taxpayers end up paying twice. In this sense, the current equalization formula has become an unintended and unfair method of inter-regional sharing. Various commentators have noted this "serious inequity in funding equalization flows arising from energy."[13] It should also be noted that federal taxpayers in Ontario already bear a healthy share of the financing for the Oil Import Compensation Program. Some of the financial flows related to energy are shown and discussed in the Appendix.

When the one-third resource ceiling is reached, the growth of equalization will no longer be determined by the growth of resource related revenues. It will, instead, tend to settle in around the general rate of growth in the economy as a whole, as reflected through the non-resource revenue sources. (Table 10 displays the impact of the one-third cap under two oil and gas price assumptions for 1980 and 1981.) One important consequence is that the equalization formula will cease to be even the partial and indirect mechanism by which the traditional receiving provinces have, for seven years, been able to "share" in the rapidly increasing wealth of the producing provinces. The obvious result, given further energy price increases, will be a more rapidly widening fiscal gap between the producing and consuming provinces, and an even greater need for a new national approach to rent sharing.

III Equalization: Reform Scenarios

A thorough reform of the equalization program is required as part of the solution to Canada's problems of regional imbalance. This fact has been recognized for some time. During 1976, the federal government contemplated major structural changes to the formula, but concern on the part of the recipients, combined with the complex Established Programs Financing negotiations being conducted simultaneously, precluded this step.[14] Since 1977, the equalization program has become even less satisfactory as a result of the arbitrary provisions that have been introduced.

[13]T.J. Courchene, "Energy and Equalization", *Energy Policies for the 1980s,* Ontario Economic Council, 1980, p. 129.

[14]For a review, see the Hon. W. Darcy McKeough, "Federal-Provincial Fiscal Reforms", Budget Paper B, *Ontario Budget 1977* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1977).

Impact of a $2 Per Barrel Rise in the Price of Oil — Table 9

($ million)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
Additional cost for oil and natural gas	37.0	8.0	69.0	62.0	404.0	640.0	65.0	84.0	252.0	179.0	1800.0
Royalties received	—	—	—	—	—	2.0	3.0	56.0	755.0	64.0	880.0
Equalization generated	10.7	2.3	15.8	13.1	117.4	—	18.3	−14.7	—	—	162.9
Estimated contribution from federal taxpayers in support of this new equalization	1.5	0.4	4.4	2.9	36.0	70.8	5.6	5.0	18.1	18.2	162.9
Net balance	−27.8	−6.1	−57.6	−51.8	−322.6	−708.8	−49.3	−47.7	+484.9	−133.2	
Net balance in $ per capita	−48	−50	−68	−74	−51	−83	−48	−50	+241	−52	

Notes: 1. "Estimated contribution from federal taxpayers" is calculated as per 1978 federal revenue collections in each province, National Accounts basis. See Statistics Canada, Catalogue 12-213.

2. The reduction in the cost of the Oil Import Compensation Program and the reduced yield from export charges are ignored.

3. Table does not take into consideration increased purchasing power of the oil and gas industry.

Table 10

Impact of Resource Cap on Equalization Entitlements

($ million)

	Nfld.	P.E.I	N.S.	N.B.	Que.	Ont.*	Man.	Sask.	Total*	Growth over Previous Year*
										(%)
No Cap										
1980-81 $2.00/barrel	391.0	91.6	481.5	415.6	1,793.6	403.2	332.9	68.9	3,575.0	14.6
$4.00/barrel	401.5	93.8	496.8	428.5	1,905.0	546.0	350.2	60.9	3,736.7	19.8
1981-82 $2.00/barrel	442.3	103.6	544.1	471.4	2,014.6	495.0	383.7	77.0	4,036.8	12.9
$4.00/barrel	461.3	107.7	571.9	494.6	2,213.7	754.9	414.7	63.8	4,327.6	15.8
With Cap										
1980-81 $2.00/barrel	387.7	90.2	472.7	409.4	1,735.4	320.2	323.0	73.7	3,492.0	12.0
$4.00/barrel	392.0	90.2	473.2	411.4	1,746.4	321.3	323.4	74.1	3,510.6	12.6
1981-82 $2.00/barrel	432.5	99.7	518.8	453.3	1,845.9	255.4	355.0	90.3	3,795.5	8.7
$4.00/barrel	444.4	101.8	533.1	466.2	1,950.6	384.3	370.5	84.4	3,950.9	12.5
Loss from Cap										
1980-81 $2.00/barrel	3.3	1.4	8.8	6.2	58.2	83.0	9.9	(4.8)	83.0	
$4.00/barrel	9.5	3.6	23.6	17.1	158.6	24.7	26.8	(13.2)	226.1	
1981-82 $2.00/barrel	9.8	3.9	25.3	18.1	168.7	239.6	28.7	(13.2)	241.3	
$4.00/barrel	16.9	5.9	38.8	28.4	263.1	370.6	44.2	(20.6)	376.7	

Source: Ontario Treasury estimates.

*The totals and growth rates exclude Ontario due to pending federal legislation.

Note: Numbers may not add due to rounding.

The problems and issues raised in this paper indicate the need to restore equalization as a program that is concerned with "comparable standards of service" at tax rates that are not "unduly high". For 1982, this could mean removing or reducing the influence of non-renewable resources on the formula. Consideration will also have to be given to new mechanisms for ensuring that, in future, all provinces are treated fairly when it comes to redistributing the windfall revenues generated by oil and gas. Such mechanisms could well entail direct contributions by wealthy provinces toward the national equalization effort.

Various reform proposals have been put forward by governments and public finance specialists in the past few years. These proposals range from comprehensive packages to suggestions for resolving specific issues. This paper suggests four scenarios that appear appropriate for further study and discussion by the federal and provincial governments. Tables 11 and 12 compare the dollar flows under each option for 1979-80 and 1981-82. The options will clearly have to be analyzed against the backdrop of dynamically changing oil and gas developments.

Scenario I

Under this scenario, the need for the one-third cap and the per capita override would disappear because of a change in the method of determining fiscal capacities.

Main Features

- Fiscal capacities would be calculated by comparing a province's share of the population with its share of provincial Gross Domestic Product.
- Equalization entitlements would be calculated by applying the fiscal capacity deficiencies to total provincial revenues, continuing to discount non-renewable resources by 50 per cent.
- Provinces would receive, over a guarantee period, the greater of the equalization so determined, or the equalization they received in the final pre-reform year.

This option would, over time, eliminate the windfall equalization that has occurred due to the escalation of oil and gas prices since 1973. The guarantee is added to prevent the significant losses that would otherwise occur for certain provinces in the first years as a result of the reform. There would, during the guarantee period, be zero growth in payments to Quebec and Manitoba, meaning that the federal government would achieve substantial savings on the program. This scenario does not address the question of petrodollar recycling, and assumes that separate mechanisms would be put in place to handle the sharing of natural resource rents as prices rise. This option is displayed in column 2 of Tables 11 and 12.

Scenario II

Under this scenario, there would be two equalization formulas, one for conventional revenue sources and one for natural resources.[15] This would recognize the very uneven distribution of resources among the provinces, and isolate basic equalization from the dollar flows generated by oil and gas. The second tier of equalization could then be financed by contributions from the resource wealthy provinces.

Main Features

- The present equalization formula would be applied to all revenue sources, excluding natural resources.
- Municipal property taxes would be added.
- The federal government would save about $800 million per year, which it could devote to energy conservation and development, oil import subsidies, etc.
- A second tier of equalization would involve provincial financing.
- Provinces would contribute 25 per cent of the portion of their natural resource revenues in excess of the per capita national average.
- Provinces would receive 25 per cent of their natural resource deficiencies relative to the per capita national average.

This approach establishes " basic" equalization at roughly the level it would have reached in the absence of energy price shocks. The funding inequity associated with past oil and gas price increases is thereby removed. The governments of the resource wealthy provinces contribute directly and visibly to the national equalization effort. The potential strain of further energy price increases on federal finances is eliminated, without resort to arbitrary caps, and a measure of rent recycling takes place automatically as oil and gas prices rise. The breakout between basic and resource equalization under this option is displayed in columns 3 and 4 of Tables 11 and 12.

Scenario III

Under this scenario, there would be two separate redistribution systems, one for basic equalization, and one a per capita grant financed largely from natural resource revenues. Structurally, this option is similar to Scenario II, except that it avoids the concept of "equalizing" in respect of natural resources. Rather, it is based on the notion that natural resources, while owned and managed by the provinces, are in certain respects a national heritage of all Canadians. It follows that when part of the windfall revenue is being shared, it should be distributed on a population basis.

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[15]For discussion of one such two-tier formula, see Thomas J. Courchene and Glen H. Copplestone, "Alternative Equalization Programs: Two Tier Systems", paper prepared for Canadian Tax Foundation Conference on "The Fiscal Dimension of Canadian Federalism", October 12, 1979.

Main Features

- As under Scenario II, natural resources would be removed from the representative tax system, and municipal property taxes would be added.
- Federal "savings" of $800 million would be committed to a new national sharing fund.
- Provinces would add to this fund 25 per cent of the portion of their natural resource revenues in excess of the per capita national average.
- The total in this separate fund would be distributed to all provinces on a per capita basis.
- For simplicity, the base-year federal "savings" committed to the new fund could be put on an indexed basis, rather than annually recalculated relative to the old formula.

This scenario very clearly distinguishes basic equalization from rent sharing. All provinces would be entitled to their population shares of part of the national resource heritage. As energy prices rise, relative to the index, the portion of the fund contributed by the resource wealthy provinces would increase.

Scenario IV

This scenario assumes that the equalization program becomes a formal mechanism for the partial recycling of petrodollars. It leaves substantially intact the existing representative tax system approach, but removes most of the ad hoc measures introduced in recent years to contain the program's sharp cost escalation. In order to prevent a further deterioration in the federal financial position, the federal contribution to the program in the final pre-reform year would be placed on an acceptable index basis. And, the oil and gas producing provinces would share the excess costs of the program taking into account their relative fiscal superiorities.

Main Features

- The one-third ceiling and the per capita override would be removed. Crown leases would be put back in. Non-renewable resources would continue to be discounted by 50 per cent.
- This "unconstrained" representative tax system would be allowed to run full out.
- Federal liability would be set at a base-year dollar amount, escalated by, say, GNP growth.
- The shortfall between program costs and federal liability would be paid by wealthy provinces on the basis of their shares of the total fiscal capacity excess.

As a scenario for the future, this option makes a substantial difference to the traditional recipients as their entitlements will no longer be

constrained by the one-third ceiling and per capita override. The producing provinces will directly contribute part of their petrodollar fortunes to the rest of Canada as prices are allowed to rise. Thus, like Scenarios II and III, this option has a built-in mechanism for recycling. In fact, the 50 per cent discount on non-renewable resources could be abolished to make this an even stronger recycling program.

The last three alternatives discussed above entail voluntary provincial contributions to a national program or fund. This would not, of course, affect the ownership of resources, and would only come about as part of an overall energy pricing agreement. Resource related transfers under these scenarios should not be regarded as the means for reducing deficits or further expanding the public sector. On the contrary, the objective is that these funds be constructively passed through to the private sector to offset the drain of purchasing power due to higher energy prices. This recycling via the provinces would complement any recycling to be undertaken by the federal government through proposed energy banks, reinvestment funds, or whatever other institutions emerge as the flow of resource rents is renegotiated. It would ensure that all provinces continue to have an effective voice in developing responses to the economic challenges posed by higher domestic energy prices.

Conclusion

The rapid rise in oil and natural gas prices since 1973 has caused serious differences in economic performance among the regions, and serious fiscal imbalances among governments in Canada. This paper has examined the equalization program and its relationship to energy developments and inter-regional sharing. The current formula is clearly inappropriate and arbitrary in its treatment of resource revenues, and is in need of significant reform. The renegotiation of the equalization program will test the ability of Canadians to meet the new regional and fiscal challenges to Confederation in the 1980s.

Table 11

Comparison of Various Equalization Approaches, 1979-80

($ million)

	Present	Scenario I	Scenario II			Scenario III			Scenario IV
		(Before Guarantee)	Basic Equalization	Resource Equalization	Total	Basic Equalization	Resource Fund	Total	
Nfld.	344	386	342	36	378	342	48	390	351
P.E.I.	79	84	69	8	77	69	10	79	80
N.S.	419	398	345	58	403	345	71	416	429
N.B.	356	354	311	44	355	311	59	370	364
Que.	1,574	1,146	953	414	1,367	953	528	1,481	1,648
Ont.	0	0	0	554	554	0	712	712	355
Man.	295	107	173	63	236	173	86	259	307
Sask.	52	15	124	−58	66	124	80	204	50
Alta.	0	0	0	−1,031	0	0	168	168	0
B.C.	0	0	0	−88	0	0	215	215	0
Total	3,118	2,490	2,317	—	3,436	2,317	1,977*	4,294	3,584**

*Under Scenario III, Saskatchewan pays $58 million, Alberta $1,031 million, British Columbia $88 million and the federal government $800 million.

**For illustrative purposes, assumes $2,587 million in 1977-78 and an escalator of 9 per cent to 1979-80. Under these assumptions, the federal government pays $3,074 million, Alberta pays $236 million and British Columbia pays $64 million.

Table 12

Comparison of Various Equalization Approaches, 1981-82
($ million)

	Present	Scenario I	Scenario II			Scenario III			Scenario IV*
		(Before Guarantee)	Basic Equalization	Resource Equalization	Total	Basic Equalization	Resource Fund*	Total	
Nfld.	444	485	426	63	489	426	76	502	477
P.E.I.	102	106	89	14	103	89	16	105	110
N.S.	533	512	438	97	535	438	111	549	595
N.B.	466	475	404	77	481	404	92	496	514
Que.	1,951	1,494	1,136	703	1,839	1,136	818	1,954	2,386
Ont.	0	0	0	950	950	0	1,111	1,111	989
Man.	371	160	217	112	329	217	133	350	443
Sask.	84	0	156	−82	74	156	126	282	64
Alta.	0	0	0	−1,832	0	0	275	275	0
B.C.	0	0	0	−102	0	0	343	343	0
Total	3,951	3,232	2,866	—	4,800	2,866	3,101	5,967	5,578**

*Under Scenario III, Saskatchewan pays $82 million, Alberta $1,832 million, British Columbia $102 million and the federal government $1,085 million.

**Assumes $3,118 million in 1979-80 and an escalator of 10 per cent to 1981-82. Under these assumptions, the federal government pays $3,773 million, Alberta pays $1,505 million and British Columbia pays $300 million.

Note: For illustrative purposes of future price effects, a $4.00/barrel price increase for 1980 and 1981 is assumed.

Appendix

This Appendix describes the main inter-regional dollar flows associated with oil and gas in 1979, and highlights the considerable energy burden borne by federal taxpayers in Ontario.

As shown in the accompanying diagram, there are three avenues of subsidization leading from the federal government. Under the Oil Import Compensation Program, Ottawa spent over $1,575 million to effectively bring down the price of imported oil in Eastern Canada to the fixed domestic price. Under the equalization program, $938 million in energy-related equalization flowed to the recipient provinces — most of it was directed to the provinces east of Ontario, but some flowed to Manitoba and Saskatchewan. The arrow labelled "tax incentives to the resource industry" summarizes a variety of federal tax expenditures. There are considerable conceptual difficulties in measuring the value of these incentives. An extremely conservative estimate for 1979 is $600 million.

While tax incentives ultimately benefit shareholders wherever they may live, they are considered in this Appendix to benefit the West in that their very existence testifies to income producing activity in the oil producing areas. Furthermore, there is evidence for recent years that provinces have been able to capture a significant portion of these incentives. For example, excess corporate liquidity helped to trigger a recent bidding war for exploration rights and a resultant spectacular increase in provincial revenues from the sale of Crown leases.

The three main avenues of federal subsidy can be traced back through the federal tax structure to their effective point of origin. Federal taxpayers in Ontario generate about 43 per cent of federal general revenues, while taxpayers east of Ontario provide 28 per cent, and taxpayers west of Ontario account for 29 per cent. Applying these percentages to the cost of the federal redistribution effort determines contributions as follows:

($ million)	West	Ontario	East	Total
Oil Import Deficit	244	361	235	840
Energy Equalization	272	403	263	938
Tax Incentives	174	258	168	600
Total	690	1,022	666	2,378

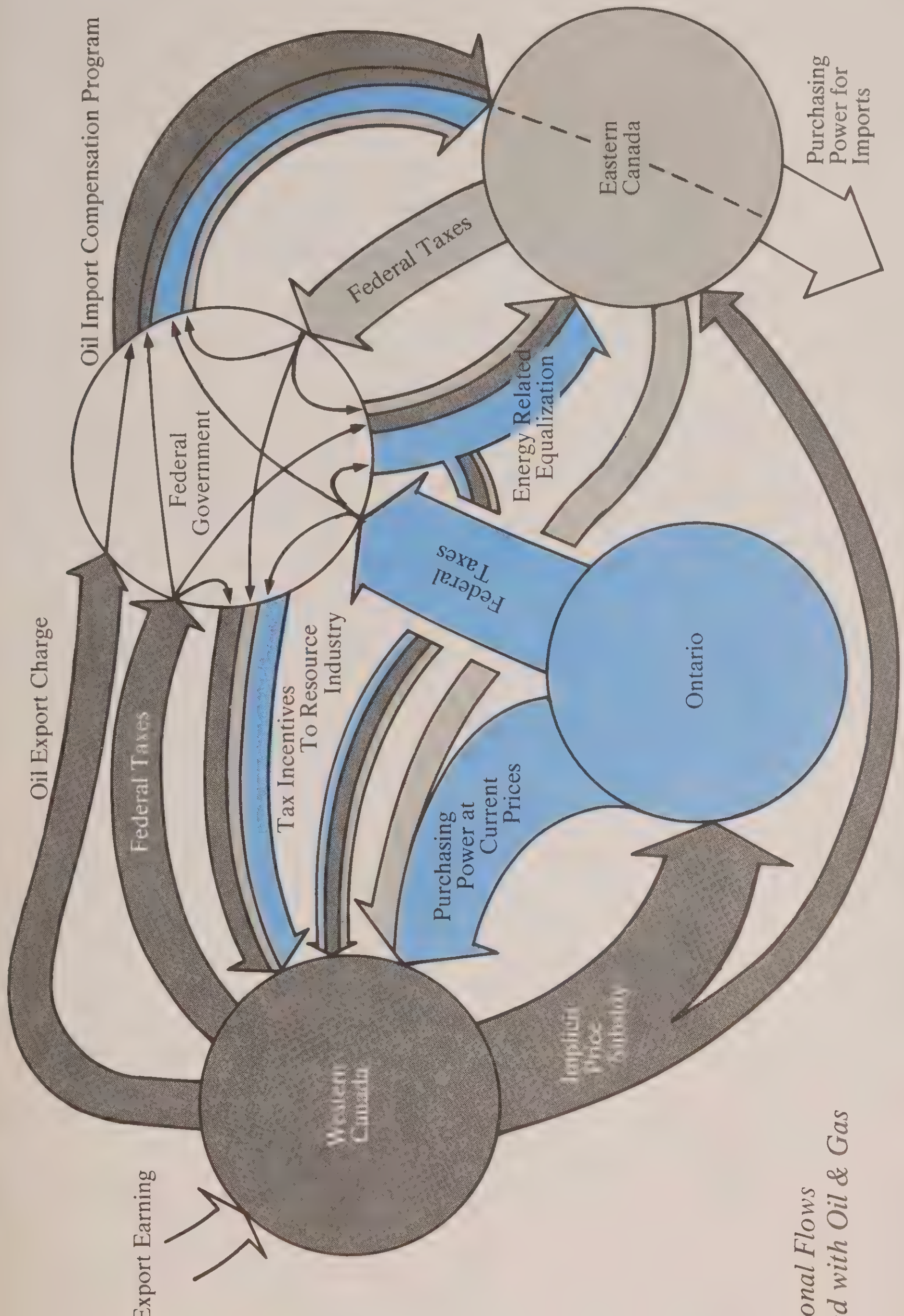
In addition, Western Canada is assumed to contribute the full value of the Oil Export Charge, $735 million, since, in the absence of this federal measure, most of the benefits of the export price would accrue to the provincial governments and industry.

Eastern Canada receives a total energy related subsidy of $2,387 million, composed of $1,575 million on the Oil Import Compensation Program and $812 million in oil and gas equalization. It therefore receives a net *subsidy* of $2,387 – $666 = $1,721 million, or about $202 per capita.

Western Canada is assumed to benefit by the $600 million in resource incentives, as well as $126 million in oil and gas equalization. Its net *contribution* is therefore $1,425 – $726 = $699 million, or $107 per capita. This contribution to energy related redistribution would be reduced if larger, more realistic values had been assumed for the special tax incentives to the resource sector.

($ per capita)	West	Ontario	East
"Benefit"	110	0	280
"Contribution"	217	120	78
Net	–107	–120	202

Ontario's contribution of $1,022 million works out to $120 per capita. Despite its resource wealth, the West, on a per capita basis, contributes less than Ontario to the federal government's energy related redistribution programs. Of course, the producing provinces provide an implicit subsidy to Ontario and, to a lesser extent, Quebec in that consumers in these provinces are able to purchase oil and gas at a price which is low by international standards. It is impossible to establish a value on this subsidy in the absence of agreement on what the long run relationship should be between the domestic price and the world price. In any case, as oil and gas prices rise, this subsidy contracts and the drain in purchasing power from Ontario and Quebec increases.



Inter-regional Flows Associated with Oil & Gas

THE ENERGY ACCOUNT

Budget Paper B

Direct Property Tax Relief for Ontario Pensioners

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Direct Property Tax Relief for Ontario Pensioners

Introduction

In 1977, the Premier of Ontario promised to reduce "the municipal tax burden on senior citizens, and to work towards the ultimate elimination of this particular tax for the majority of Ontario's senior citizens."[1] The 1980 Budget takes a major step toward fulfilling this commitment and introduces additional measures to help pensioners.

- The Province will replace its property tax credit program with direct grants of up to $500 per year for pensioners who pay municipal and school taxes. This means that approximately 50 per cent of Ontario's senior citizens who own their homes or rent will be fully compensated for their property taxes and that 63 per cent of all property taxes paid by these pensioners will be refunded by the Province.
- Pensioners will receive a direct sales tax grant of $50 rather than a sales tax credit.
- Starting with May 1980, Guaranteed Annual Income System (GAINS) payments will be increased by $10 a month for each eligible pensioner.

For over a decade, the Ontario Government has pioneered a variety of programs for tax, income and cost assistance to the elderly. The first part of this paper documents the evolution of these programs. The second section examines the burden of property taxes on pensioners and the impact of the tax credit program. The third part outlines how the new policy for property tax relief will work and details its impact on the property tax position of pensioners. The final section explains the new sales tax grant and the enriched GAINS program.

I Helping the Elderly

Property Tax Relief

The Province of Ontario has been offsetting the municipal and education tax burden of its citizens since 1968 when it introduced

[1]The Hon. W. G. Davis, *A Charter for Ontario,* May 19, 1977.

basic shelter grants.[2] Needy pensioners were provided additional property tax relief in 1970 by means of grants of $50 per single pensioner and $100 per pensioner couple. In 1972, Ontario pioneered refundable property tax credits through the income tax system for all families with low and moderate incomes.[3] In the following year, the Province integrated its special assistance for pensioners into the tax credit system in the form of a pensioner credit. At that time, a sales tax credit also was introduced. The tax credit system was further enriched in 1974.

For 1979, the Province will spend some $450 million on the tax credit program. Almost three million Ontarians receive credit benefits, including 710,000 senior citizens. Although pensioners represent less than one-quarter of all recipients, they will receive almost 45 per cent of total tax credit benefits. The distribution of benefits for pensioners is shown in Table 1.

Tax Credits for Ontario Pensioners in 1979 — Table 1
($ million)

Gross Income ($000)	Property Tax Credits	Sales Tax Credits	Pensioner Credits	Total
<5	51	16	33	100
5-10	36	9	19	64
10-15	14	3	6	23
15-20	5	1	2	8
20 +	2	—	1	3
Total	108	29	61	198

Source: Ontario Treasury estimates.

Notes:
1. Property tax credits are calculated as the lesser of occupancy cost or $180, plus 10% of occupancy cost.
2. Sales tax credits are calculated as 1% of personal exemptions.
3. Pensioner credits are $110 per claimant.
4. The total of these credits is reduced by 2% of taxable income.

A Guaranteed Income

The Government has also recognized the need to supplement the incomes of senior citizens. Since July 1974, Ontario has operated GAINS which delivers supplementary assistance to low-income pensioners. The GAINS program provides a monthly payment to augment federal Old Age Security (OAS) and Guaranteed Income Supplement

[2]The Ontario Committee on Taxation recommended a flat exemption to reduce the taxable assessment of dwelling units in the province. In 1968, the Government responded by implementing the "Basic Shelter Exemption" grant program under the Residential Property Tax Reduction Program. The grant, which reached an average value of about $60, was replaced by the Property Tax Credit in 1972.

[3]For a description of Ontario's tax credit system, see Ontario Tax Studies 14, *Reduction of Tax Burdens Through Tax Credits: Ontario's Experience* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1977).

(GIS) benefits to guarantee a minimum level of income.[4] In 1979, single pensioners in Ontario were guaranteed an annual income of $4,244 and pensioner couples an annual income of $8,248. Some 240,000 pensioners were beneficiaries under the GAINS program, at a cost to the Province of $90 million. The components of the guaranteed income in 1979 are outlined in Table 2.

GAINS Guarantee Payments in 1979 — Table 2
(dollars)

	Single Pensioner	Pensioner Couple
Old Age Security	2,074	4,149
Maximum GIS	1,703	2,832
GAINS Payment	467	1,267
Guaranteed Income to Ontario's Pensioners	4,244	8,248

Cost Relief

To complement tax credits and basic income support, the Province provides a number of special benefits to pensioners on both a selective and a universal basis. Universal benefits include free health care, free prescription drugs and the subsidization of the per diem costs of nursing homes and homes for the aged. In addition, pensioners may visit Ontario's Provincial parks, the Ontario Science Centre, Ontario Place and other Provincial cultural centres and historical sites such as Huronia free of charge. Selective benefits are provided to some pensioners through the subsidization of senior citizen housing. In total, the Province spent $700 million on these programs in 1979-80—over $800 per pensioner on average. Table 3 summarizes the major programs.

Cost Relief for Ontario Pensioners in 1979-80 — Table 3

	Beneficiaries	Cost
	(000)	($ million)
Free OHIP	850*	205
Free Prescription Drugs	800	105
Subsidized Nursing Homes**	21	150
Subsidized Homes for the Aged**	26	125
Subsidized Housing**	67	115
Total Cost		700

Source: Ontario Treasury estimates.
*Includes dependants.
**Cost shared with the federal government.
Note: Subsidized housing does not include estimates for senior citizens living outside of Metropolitan Toronto receiving the rent-geared-to-income supplement.

[4] For a full description of the GAINS program, see the Hon. John White, "Income Security and Tax Reform in Ontario", Budget Paper A, *Ontario Budget 1974* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1974).

Pensioners also receive a number of benefits under the income tax system. GAINS and GIS payments are not taxable, and pensioners are eligible for the old age exemption and a $1,000 deduction for private pension income. In fact, a single pensioner can receive as much as $8,600 in income and a married couple significantly more than this amount in family income without paying any federal or Provincial income tax.[5]

II The Burden of Property Taxes on Pensioners

When people retire, most experience a significant decline in their income. As noted above, this decline is cushioned by federal and Provincial pension benefits, special programs and preferential tax treatment of income. However, pensioners who wish to stay in their own homes must continue to pay property taxes, either directly as homeowners or indirectly as renters. Because of the decline in their income, the relative weight of these property taxes is more onerous.

Table 4 looks at property taxes as a percentage of income, or at the "incidence burden" of the property tax, before the impact of the existing pensioner and property tax credits. Pensioner homeowners and renters pay an average $574 in property taxes. This is somewhat less than the average of $658 for employed persons under age 65. However, pensioners pay 6.3 per cent of their gross income in property taxes compared with an average of 4.4 per cent for employed non-pensioners.

The Incidence Burden of Property Taxes on Pensioners in 1980 — Table 4

(property taxes as % of income)

Gross Income	Pensioners	Employed Non-Pensioners*
($000)	(%)	(%)
<10	7.8**	6.0
10-15	5.6	4.6
15-20	4.5	4.0
20 +	4.0	4.0
Total	6.3	4.4

Source: Ontario Treasury estimates.

*Persons under age 65 reporting income exceeding the minimum wage.

**Guaranteed Income Supplement and GAINS payments are included in income of pensioners.

Notes: 1. Data are based on only those taxfilers who report occupancy cost and who claim a tax credit. Pensioners in institutions are not included.

2. Incidence burden is calculated without taking into consideration Ontario tax credits.

[5]These income levels are based on the value of the personal exemption, the old age exemption, and assume each taxfiler takes full advantage of the $1,000 investment income and $1,000 pension income deductions.

This imbalance in the property tax burden is partly alleviated by the system of tax credits. Table 5 shows that, for 1979, 46 per cent of property taxes paid by pensioners will be offset through this program and that this relief is concentrated in the lower income ranges.

Tax Credits Offset 46 Per Cent of Pensioners' Property Taxes in 1979 — Table 5

Gross Income	Number of Pensioners	Property Tax Credits and Pensioner Credits	Percentage of Property Taxes Offset
($000)	(000)	($ million)	(%)
<5	241	77	80
5-10	163	53	58
10-15	76	19	37
15-20	36	6	23
20 +	52	2	3
Total	568	157	46

Source: Ontario Treasury estimates.

Notes: 1. Includes all pensioners eligible to claim a property tax credit in 1979.
2. Gross income is income reported for income tax purposes. This excludes GIS and GAINS.

The Province recognizes that, even though the existing tax credit program provides pensioners with a significant degree of relief from property taxes, more needs to be done. Pensioners have invested many years of hard work in their homes and should be able to enjoy them during their retirement years. In 1978, the Province published a budget paper which proposed one way additional relief could be provided.[6] That method would have involved an increase in tax credits delivered through the income tax system. However, in the case of pensioners, the tax credit system has some notable disadvantages.

- Elderly people must take the responsibility for the completion of a complicated tax return even though they may have no taxable income.
- There is a long lag between the payment of property taxes and the actual receipt of the tax credit.
- Many pensioners simply do not relate their tax credits to their property taxes.
- Because the Province must work through the relatively cumbersome mechanism of the federally administered income tax system, flexibility for adjusting and enriching benefits is limited.

In the 1978 budget paper, the Province also considered the option of moving to a system of direct grants which would overcome those

[6]See the Hon. W. D. McKeough, "Relieving the Burden of Property Taxes on Senior Citizens", Budget Paper B, *Ontario Budget 1978* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1978).

problems, but at that time felt that such a system would have its own difficulties. The paper pointed out that a grants system would involve additional Provincial administrative costs; that some pensioners would get less relief; that the channelling of increased relief on an ability-to-pay basis would create administrative complexities; and, that it "would be difficult to handle renters fairly and directly".[7]

After very careful study, the Government now believes that it can overcome the problems which were believed to exist in a provincially administered grant system. First, the Government's restraint program has resulted in a successful reduction of bureaucratic overhead that has yielded the scope to undertake a modest amount of additional program administration. Second, the Government is proposing to significantly enrich GAINS benefits, an action which will provide offsetting compensation for many people who may receive reduced benefits under a grant program. Third, with the GAINS enrichment, the need to channel property tax credits on an ability-to-pay basis is significantly reduced. Fourth, the Government is confident that renters can be treated fairly and directly under a grants system. Furthermore, the Government believes that an element of universality should be built into the existing system in order to recognize the valuable contribution that pensioners have made to our communities.

Therefore, the Province is prepared to undertake the administration of a new direct property tax relief program for pensioners. The program will be administered in the most efficient method possible with a minimum of additional staff.

III Ontario's New Program for Pensioner Property Tax Relief

This section outlines the details of Ontario's new program providing direct grants to help pensioners pay their property taxes.

Amount of Relief

Pensioners who pay property taxes directly as homeowners or indirectly as renters may receive up to $500 in grants each year from the Province. Only one grant will be allowed per household. Grants will be limited to property tax payable or $500, whichever is lower. For example, if a pensioner's actual municipal tax is $400, he or she will receive cheques from the Province totalling $400. If property tax paid is greater than $500, the grant will be $500. This new approach represents a significant increase in available property tax relief and a considerable simplification in procedure.

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[7]Hon. W. D. McKeough, *ibid.*, pp. 13-14.

Eligibility

The basic criterion for eligibility will be receipt of the Old Age Security pension by the claimant or his or her spouse. This means that to be eligible, the pensioner must have resided in Canada for at least 10 years. However, there will be no stipulation regarding past residency in Ontario. Eligibility requires that property taxes or rent must have been paid. The rules regarding the definition of property taxes and rent will be substantially the same as those under the existing tax credit system.

Residents of charitable and municipal homes for the aged will not be eligible for the new relief as these homes are not subject to property taxes. As well, residents of private nursing homes under the Extended Care program will not be eligible since the Government already provides a substantial subsidy for their accommodation. These individuals receive a yearly subsidy of $6,300 or more per person. However, those pensioners in nursing homes who do not receive Extended Care benefits will be eligible for the grants.

Claiming Procedure

With the direct payment system, pensioners will submit to the Ontario Ministry of Revenue the required information concerning property taxes paid on their principal residence. For renters, this information will simply be the amount of rent paid, of which 20 per cent will be deemed to be property taxes. In return, the Province will send the eligible pensioner a cheque for the amount of the grant. Receipts will be required from renters, but not from homeowners since the Province will be able to verify their eligibility through municipal tax records.

Frequency of Payments

For 1980, pensioners will receive their new grant before the end of the year. With respect to subsequent years, to better tailor the delivery of benefits to the payment of property taxes, it is planned that two payments per year will be made. For homeowners, the first payment would be made in the earlier part of the year when interim property tax bills are received. The second part of the grant payment, if applicable, will be made following payment of the final property tax bill. Renters also will be eligible for two payments a year.

It should be emphasized that the Province will *not* be paying the grants to municipalities on behalf of pensioners. Rather, it will be paying grants directly to pensioner homeowners and renters.

Impact of the New Grant Program

This new program will deliver some $214 million in direct benefits to the more than half million Ontario pensioners who own or rent their homes. As Table 6 indicates, the amount of property taxes that will be offset under the grant program will be substantially increased. Overall, 63 per cent of property taxes paid by pensioners will be offset by property tax grants. Some 260,000 senior citizens will be fully relieved of their municipal tax burden, about 120,000 more than under the credit system.

Grants Will Offset 63 Per Cent of Pensioners' Property Taxes in 1980

Table 6

(per cent)

Gross Income	Property Taxes Offset 1979 Credit System	1980 Grant System
($000)	(%)	(%)
<5	80	84
5-10	58	73
10-15	37	67
15-20	23	63
20 +	3	33
Total	46	63

Source: Ontario Treasury estimates.

Notes: 1. Gross income is that reported for income tax purposes. This excludes GIS and GAINS.

2. The columns are not strictly comparable as residents of institutions are excluded under the 1980 grant system.

The majority of pensioners will receive significantly more property tax relief through the new grant program, as shown in Table 7. Benefits under the grant program are compared to credits that would have been delivered to the "average" pensioner renter and homeowner. The table shows that both will do much better under the grant program.

In total, more than 400,000 Ontario pensioner homeowners and renters will receive greater benefits under this new plan. Since about 135,000 tax credit claimants could receive an amount in excess of their

Grants Outperform Tax Credits in Offsetting Property Taxes in 1980

Table 7

(dollars)

	Benefits Credit	Grant
"Average" Pensioner Renter	285	400
"Average" Pensioner Homeowner	295	500

Source: Ontario Treasury estimates.

actual property taxes, their grants will be lower than the amount previously received under the tax credit program. The Province feels this action is consistent with the basic intent of the new program — that is, to offset property taxes. However, it is recognized that some pensioners will lose an element of income supplementation previously delivered through property tax credits. For many, this will be counterbalanced by the increase in GAINS.

Implications for the Eligibility of Pensioners for Property Tax Credits

Relief provided to pensioners through property tax and pensioner credits under the Ontario Tax Credit System will become unnecessary as a result of this program. Consequently, for 1980 and subsequent years, these credits will no longer apply to pensioners. Pensioners will be spared the worry and inconvenience of completing an income tax return in order to claim their property tax relief. However, the rest of the population will continue to be eligible to claim tax credits.

Currently, pensioners who do not pay property taxes are eligible for pensioner and sales tax credits. Under the new program, they will no longer receive pensioner credits, nor will they be eligible for property tax grants. However, they will be eligible for the new sales tax grants and many will benefit through increased income support under the GAINS enrichment.

IV Further Relief for Pensioners

A New Sales Tax Grant

With the removal of eligibility for property tax and pensioner credits, people over age 65 would still have to claim a sales tax credit through the submission of an income tax return. This situation would have a number of disadvantages.

First, it would require pensioners to continue to undertake the difficult task of completing an income tax return only for the purpose of claiming a sales tax credit, which would average about $40 per annum.

Second, Ontario would like to move to the principle of universality with respect to this particular program. All pensioners pay some Provincial sales tax and the Government believes they are entitled to a degree of relief.

Accordingly, the Ontario Government will replace the existing sales tax credit with a flat payment of $50 to all pensioners in the province who receive Old Age Security benefits. This new benefit will provide

$9 million more in sales tax relief than would have been delivered under the sales tax credit. As a result, the value of sales tax grants for the elderly will reach $41 million for 1980.

Senior citizens will not have to apply for this grant. They will automatically receive a cheque before the end of the year.

Better Income Support

The third major component of the Government's program of increased relief for the elderly is an increase in income support and supplementation under the GAINS program. As of May 1, 1980, GAINS payments will be increased by $10 per month for a single pensioner and $20 per month for a pensioner couple. This means that, as of May 1, pensioners in Ontario will be guaranteed a minimum monthly income of $389 for a single pensioner and $758 for married couples.

This enrichment represents better than a 25 per cent increase in the amount of the GAINS portion of the income guarantee. It will cost the Province $27 million in 1980-81—almost a one-third increase in expenditures under the GAINS program. It is estimated that some 260,000 pensioners will receive an increase in monthly income as a result of the GAINS enrichment of which 240,000 will receive the full $110 in 1980-81. Table 8 looks at the components of the new guaranteed income on an annual basis.

New Level of Guaranteed Annual Income for Ontario Pensioners
(dollars)

Table 8

	Single Pensioner	Pensioner Couple
Old Age Security	2,242	4,484
Maximum GIS	1,840	3,060
GAINS Payment	587	1,552
Guaranteed Income to Ontario's Pensioners	4,669	9,096

Note: Amounts shown are based on May, 1980 levels.

Implications of the New Relief Programs and Increased GAINS

Altogether, these initiatives to assist pensioners in paying their taxes and to provide a higher minimum level of income will cost $282 million in this fiscal year. This includes $214 million for property tax relief, $41 million in sales tax grants and $27 million in increased GAINS payments. The cost of continuing the existing tax credit program for senior citizens would have been $207 million in 1980. The net result is

that the Province is providing an additional $75 million to Ontario pensioners.[8]

As noted previously, a substantial number of Ontario's pensioner homeowners and renters will be better off under the direct grant approach. As well, the increase in GAINS will protect those lowest income pensioners for whom the new direct payment program is not as beneficial. Consequently, the Province has achieved a significant simplification and rationalization in its provision of relief to the elderly. Property tax relief will be provided on the basis of property taxes paid. Income support will be increased for those pensioners in Ontario who are most in need. Table 9 illustrates the distribution of the new relief for different income groups.

New Support for Ontario Pensioners in 1980-81 — Table 9

($ million)

Gross Income	Property Tax Grants	Sales Tax Grants	Increase in GAINS	Total
($000)				
<5	64	18	27	109
5-10	65	11	—	76
10-15	36	5	—	41
15-20	19	3	—	22
20 +	30	4	—	34
Total	214	41	27	282

Source: Ontario Treasury estimates.

Conclusion

This paper has outlined new initiatives which provide significant benefits to Ontario pensioners and which fulfill a promise made by Premier William Davis in 1977. New property tax relief will be provided directly to senior citizens, while requiring a minimum of paper work on their part. Moreover, pensioners will now receive their property tax benefits shortly after they have paid their property tax bills.

In addition, the Province will provide a direct sales tax grant for pensioners in Ontario and enrich the GAINS program. The sales tax grant will ensure that sales tax relief is delivered conveniently and effectively to Ontario pensioners, and the GAINS increase will provide income protection for those pensioners most in need.

[8] For a detailed explanation of the financial implications of these new programs, see Budget Paper C.

Budget Paper C

A Solid Fiscal Foundation for the 1980s

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A Solid Fiscal Foundation for the 1980s

Introduction

The Province of Ontario has the financial strength and flexibility necessary to meet the challenges of the 1980s. These challenges involve improving on the province's traditionally high standards of economic performance, delivering high quality and efficient public services and combatting inflation. The ability to successfully achieve these priorities has been substantially augmented by the improved fiscal position achieved by Ontario through its restraint program.

Part I of this paper reviews the 1979-80 fiscal year and explains the in-year changes. Part II reviews the progress of Ontario's restraint program, re-examines projections for reducing Provincial cash requirements and documents the composition of Ontario's capital investments. Part III outlines a new strategy for managing non-public borrowing. The final section contains the detailed financial tables for 1980-81.

I Report on the 1979 Budget

This section explains the major in-year adjustments which were made to the 1979 Budget plan, and updates previous reports published in *Ontario finances.*[1] Interim results for the 1979-80 fiscal year are presented in Table 1. Provincial net cash requirements were $494 million below the original budget estimate, reflecting an increase of $791 million in revenues, and $297 million in expenditures.

1979 Budget Performance
($ million)

Table 1

	Budget Plan	Interim Results	Change
Revenue	14,405	15,196	+791
Expenditure	15,558	15,855	+297
Net Cash Requirements	1,153	659	−494

In the second half of 1979, Ontario experienced a stronger economic performance than had been expected and revenues received a con-

[1]Every year, the Ontario Treasury publishes quarterly reports, called *Ontario finances*, which update the Province's budget projections as of June 30, September 30, and December 31.

siderable added boost. Corporate profits grew at twice the rate that had been anticipated in the most optimistic economic forecasts and retail sales also grew at a faster than expected pace. The federal government increased its estimate of personal income tax revenue and settled a number of prior year obligations which had not been taken into account in the original revenue forecast. In addition, higher interest rates increased the Province's return on its investments. The in-year revisions to the 1979-80 revenue forecast are summarized in Table 2.

Summary of In-Year Revenue Adjustments in 1979-80

Table 2

($ million)

• Corporation Income Tax	+270	
• Mining Tax	+ 48	
• Retail Sales Tax	+115	
• Interest on Investments	+ 69	
• All Other	+ 67	569
Federal Forecast Adjustments		
• Prior-year adjustment re 1978 Personal Income Tax	+ 93	
• Re-forecast of 1979 Personal Income Tax	+ 99	
• Final adjustment re Economic Stimulation Program	+ 30	222
Total		791

The expenditure increase in 1979-80 consisted of three components — adjustments to ongoing programs, extraordinary items and prepayments. Changes in ongoing programs are outlined in Table 3. It shows that while increases of $267 million were approved during the year, they were more than offset by savings of $293 million resulting from constraints and reductions. The $70 million reduction in the Employment Development Fund primarily reflects a carry forward of obligations that will not be paid out until the 1980-81 fiscal year.

Expenditures were increased also to provide for a number of extraordinary items. Over a period of years, Ontario Hydro financed the purchase of lands in the Parkway Belt West for the Nanticoke to Pickering transmission line system as well as additional lands for other Parkway Belt needs. The Province has now compensated Ontario Hydro for the purchases of these Parkway lands required by the Province. In the summer of 1979, the onset of blue mould caused a major failure of Ontario's tobacco crop. It required an additional $38 million from the Province to assist the Crop Insurance Commission in financing insured losses. The Government also financed a number of special assistance programs to aid the communities damaged by

In-Year Adjustments to Ongoing Ministry Programs in 1979-80 — Table 3
($ million)

In-Year Increases	
• Health Services	80
• Colleges support, student assistance and apprenticeship training	19
• Public Debt Interest	19
• Wintario Grants	15
• Provincial and Municipal Roads—capital	13
• Urban Transportation Development Corporation	13
• Tile Drainage Loans	12
• Salary revisions and benefits	12
• Toronto Area Transit Operating Authority—capital and operating	10
• Children's Aid Societies	7
• General Welfare Assistance	7
• Extra fire fighting	6
• Ontario Development Corporations	5
• Other	49
Total	267
In-Year Savings	
• Employment Development Fund	70
• Direct Operating Expenditures	30
• Municipal Transit—capital	28
• Teachers' Superannuation Fund	10
• All Other	155
Total	293

the Woodstock tornado and spring flooding. These three items totalling $106 million are highlighted below.

- Parkway Belt West Lands — $59 million
- Tobacco Crop Failure — $38 million
- Disaster Relief — $ 9 million

The Province has accelerated certain payments to school boards and municipalities which has resulted in additional 1979-80 expenditures. Grants to local governments are paid in instalments which tend to lag slightly behind actual expenditures. Often this timing gap is covered through bank financing. Normally, the cost of such financing is not prohibitive, but high interest rates have created hardship for local governments this year. The acceleration of some $217 million in grants—$82 million to school boards and $135 million to municipalities—will help to alleviate the impact of high interest rates. Because of its strong financial position in 1979, the Province was able to take this action without putting undue pressure on the deficit. Expenditures for 1980-81 have been reduced by an equivalent amount. It is not anticipated that this action will be repeated next year.

II Disciplined Restraint Pays Dividends

This section reviews the success of Ontario's restraint program, re-examines the projections of medium term net cash requirements and documents the composition of Ontario's capital investments.

The Record of Restraint

Previous budget papers have documented in detail the management aspects of Ontario's expenditure restraint program.[2] The central purpose of this program is to reduce the burden of government on the economy, thereby freeing resources for more productive use in the private sector. Restraint also leads to greater efficiencies in public programs as administrators must find more innovative and cost effective methods of delivering public services. In addition, restraint increases the flexibility of government to undertake new tax or expenditure measures to promote economic growth and deal with social issues.

Since 1975, Ontario has held its expenditure growth rate below the rate of expansion of the provincial economy, as shown in Table 4. During the past four years, the average annual rate of growth in spending of 8.3 per cent has been 2.1 percentage points below the growth rate in the economy. Consequently, total Provincial spending measured as a percentage of Gross Provincial Product (GPP) has been reduced from 17.2 per cent in 1975-76 to an estimated 15.5 per cent in 1980-81.

Ontario Spending Has Grown More Slowly Than the Economy Since 1975 — Table 4
(per cent)

	1975-76	1976-77	1977-78	1978-79	Interim 1979-80	Estimated 1980-81
Growth in Provincial Expenditures	15.1	10.2	8.6	6.4	10.0	8.0
Growth in GPP	9.5	12.8	10.7	9.4	12.7	8.9
Expenditure as a per cent of GPP	17.2	16.8	16.5	16.1	15.7	15.5

Source: Ontario Treasury estimates.

When Ontario's restraint program took effect, concern was expressed as to resources for health care. Table 5 compares the

[2]See the Hon. W. Darcy McKeough, "Towards a Balanced Budget", Budget Paper C, *Ontario Budget 1977* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1977); the Hon. W. Darcy McKeough, "Streamlining Government Operations in Ontario", Budget Paper C, *Ontario Budget 1978* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1978); and, the Hon. Frank S. Miller, "Strengthening Fiscal Management", Budget Paper C, *Ontario Budget 1979* (Toronto: Ministry of Treasury and Economics, 1979).

Health Spending Has Outpaced the Rest of the Provincial Budget — Table 5
($ million)

	1975-76	Estimated 1980-81	Average Annual Compound Growth Rate (%)
Total Provincial Budget (excluding Health)	8,341	12,367	8.2
Total Health Budget	2,978	4,754	9.8
Hospitals and Related Facilities	1,601	2,470	9.1
Payments to Doctors	742	1,286	11.6
Extended Care	87	163	13.4
Drug Program for Pensioners	33	120	29.5

growth of health care spending and its main components to Provincial expenditure growth. It shows that, since 1975, total health spending has grown faster than total Provincial expenditures devoted to other areas.

It is interesting also to contrast the restraint record of Ontario with that of the federal government. In financial control and public service employment, Ontario has consistently outperformed Ottawa. Table 6 shows that, in 1979-80, federal cash requirements as a proportion of spending stood at 18.7 per cent, compared to 4.2 per cent for Ontario.

Ontario Has Progressively Reduced Its Cash Requirements — Table 6

	Cash Requirements as a Per Cent of Expenditure	
	Federal Government[1]	Ontario
1975-76	12.3	15.9
1976-77	13.1	10.6
1977-78	18.8	13.0
1978-79	22.6	8.2
1979-80 (Interim)	18.7	4.2
1980-81 (Estimated)	n.a.	5.5

Source: Public Accounts of Canada and Ontario, Federal estimates and Ontario Treasury estimates.

[1]Total outlays composed of budgetary expenditures plus net loans and advances. Cash requirements equal financial requirements excluding foreign exchange transactions.

The federal public service grew by 22,229 persons, an increase of 7.3 per cent, between September 1975 and March 1980. During approximately the same period, Ontario's public service was reduced by 4,180 persons, a drop of almost 5 per cent, as documented in Table 7.

Ontario Has Reduced the Size of Its Civil Service

Table 7

	Total Staff Strength	
	Federal Government	Ontario
1975	305,470	87,109
1979	327,699	82,929
Absolute Change	+22,229	−4,180
Per Cent Change	+7.3	−4.8

Source: Federal Estimates and Civil Service Commission of Ontario.

The success of the Government's restraint program has enabled Ontario to hold down the burden of government relative to other provinces. Table 8 shows provincial-local expenditures as a percentage of Gross Domestic Product (GDP) for all provinces in 1978. Since the economic and public finance profiles of the provinces differ, comparisons must be made with care. However, it is interesting to note that provincial-local spending in Ontario takes the lowest share of GDP of any province in Canada, despite the fact that the Province maintains the highest quality of public services.

Total Provincial and Local Expenditure as a Per Cent of Gross Domestic Product, 1978

Table 8

(per cent)

Newfoundland	44.9
Prince Edward Island	51.1
Nova Scotia	38.0
New Brunswick	34.3
Quebec	35.9
Ontario	25.2
Manitoba	29.2
Saskatchewan	29.7
Alberta	26.9
British Columbia	26.3

Source: Statistics Canada, Provincial and Local Government Finance and Provincial Economic Accounts.

Medium Range Fiscal Projections

In 1977, the Province of Ontario pioneered in Canada the concept of publishing medium term budget projections. A five-year plan was established for achieving a balanced budget by 1981. This time frame was extended because revenue growth did not keep pace with the original projections.[3] The Government, however, has come very close to meeting the expenditure targets set out in that plan.

In recognition of these changed circumstances, the Province last year introduced a new approach to medium term fiscal planning. The proposed objective was to maintain a certain differential between revenue and expenditure growth rates, with expenditure growing more slowly than revenue. Projections at that time indicated that the budget could be balanced by 1983-84 if the differential was held in the range of 2.5 per cent per year on average.[4] In fact, the Province exceeded this projection in the fiscal year just ended — the differential between spending and revenue growth rates was 4.8 percentage points.

While the Province was able to improve substantially its financial position in the previous year, in 1980-81 it is deliberately allowing a pause in the movement to a balanced budget capacity by permitting the planned deficit to increase. This decision recognizes current economic realities and social needs.

First, as a deliberate policy under the restraint program, a large number of Provincially financed institutions have been funded over a period of years at rates somewhat below the growth in inflation. They have responded constructively by introducing needed efficiencies in the delivery of services. Nevertheless, in some areas, basic services could suffer unless funding is forthcoming at moderately higher levels. Therefore, while most programs will still grow more slowly than the rate of inflation, some easing in funding will be permitted. Second, in a year of projected sluggish economic growth, Provincial revenues are expected to increase at a moderate rate. As noted in the Budget Statement, the Government has also recognized that some enrichment is needed in programs for the elderly in order to cushion them from price increases and to meet its prior commitment.[5]

Chart 1 shows that it is possible for the Province to continue to plan on the basis of the 1979 projection, despite the pause.

The chart shows that the deficit in 1980-81 is $149 million higher than was projected last year. However, it should be noted that some $200 million of the 1980-81 deficit is accounted for by the changeover from a tax credit to a grant program. This results in a one-time only

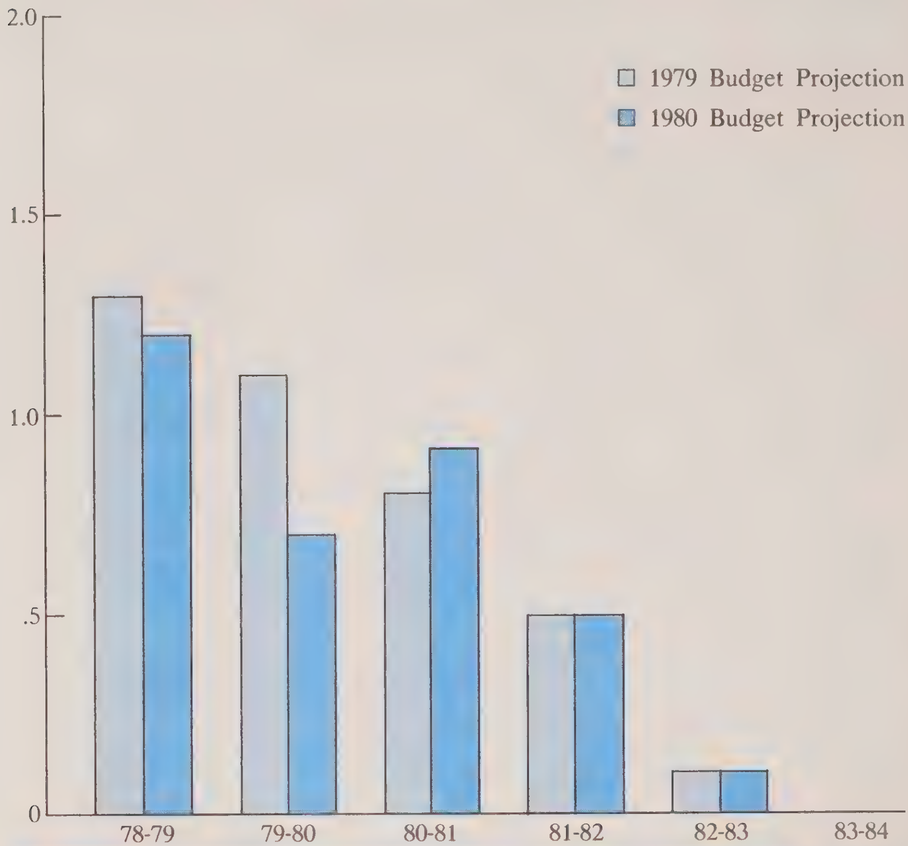
[3]The Hon. Frank S. Miller, "Strengthening Fiscal Management", *ibid.*

[4]*Ibid.*

[5]The Hon. W. G. Davis, *A Charter for Ontario,* May 19, 1977.

Progress in Reducing Ontario's Cash Requirements
($ billion)

Chart 1



increase in the deficit.[6] Further, the 1979-80 deficit was $494 million below the projection. Taking the two fiscal years together, the Province has improved the deficit projection it set out in 1979 by $345 million despite the accounting change required by the pensioner grant program. It is realistic, therefore, to continue with this projection of cash requirements which would involve the re-establishment of a differential between revenues and expenditures of 2.5 per cent in 1981-82. The realization of this projection would require fairly strong economic growth along with a reduction in inflationary pressures.

[6]This shift from tax credits to grants results in a major accounting change. Tax credits are currently accounted for as a reduction in income tax revenue; the new program involves a budgetary expenditure. In an accounting sense, this results in a "double charge" in the fiscal year 1980-81. This occurs because 1980-81 personal income tax revenues of the Province will continue to reflect $198 million in credit payments in respect of the elderly for 1979. On the other side of the ledger, 1980-81 expenditures increase by $255 million to pay for the new grant programs. Thus, the total cost to the Province in this fiscal year is $453 million. In subsequent years, the cost of the new program will be accounted for on the expenditure side rather than as a deduction from personal income tax revenues.

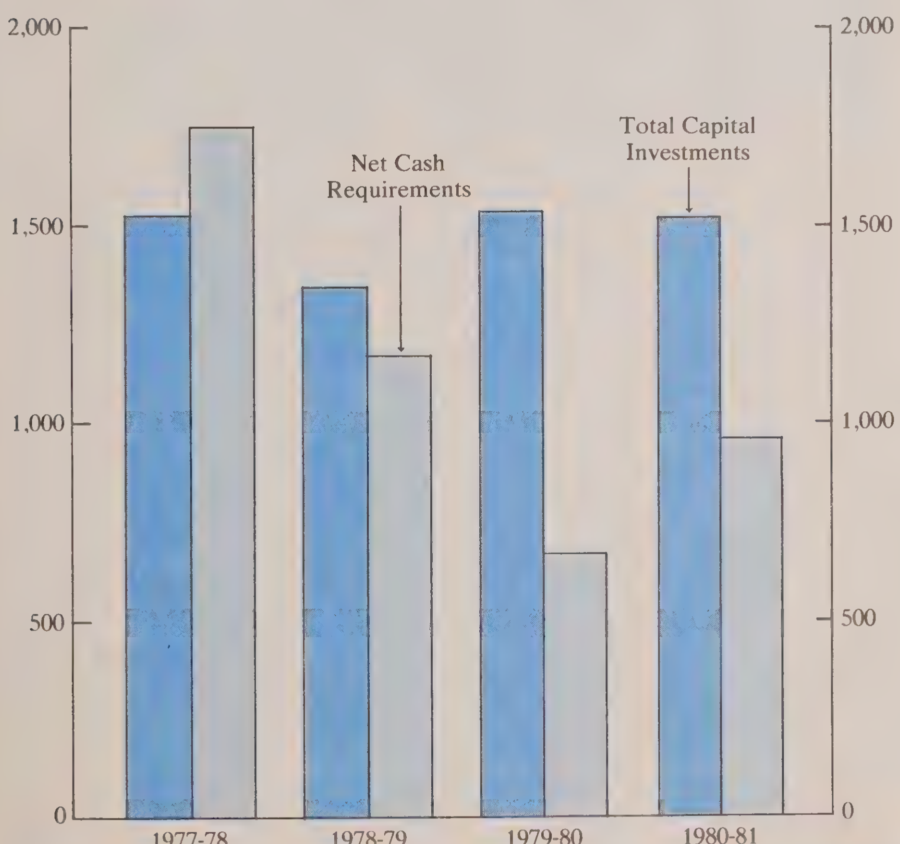
Current uncertainty about the future growth path of the United States economy makes it difficult to have confidence in the accuracy of any medium term fiscal projection. Nevertheless, for the time being, the Province will hold to its 1979 projection. As stability returns to the United States economy, these projections will be reassessed.

Capital Investment Profile

Ontario's capital investments have generally exceeded the level of net cash requirements. Although the Province does not earmark borrowed funds for specific capital projects, these funds have not, on the whole, been used to finance the day-to-day operations of government. The Province has essentially utilized its financing capacity to create public assets which will have lasting social and economic value. Chart 2 compares cash requirements with Provincial capital investments over the last four years.

Total Capital Investments and Net Cash Requirements, 1977-78 to 1980-81 — Chart 2

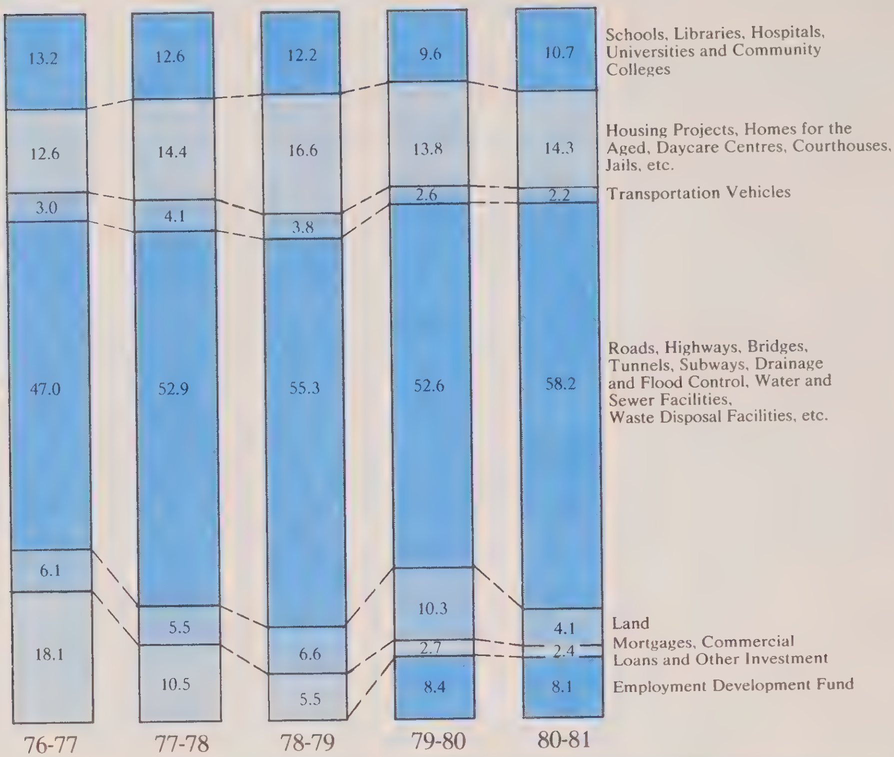
($ million)



The Changing Composition of Capital Expenditures, 1976-77 to 1980-81

(per cent)

Chart 3



The 1978 Budget provided an extensive review of the composition of Ontario's capital expenditures during the early and mid 1970s.[7] Chart 3 updates this information. It shows that in the late 1970s the trend continued towards upgrading Ontario's environmental, economic and transportation infrastructure.

III A New Approach to Non-Public Borrowing

For a number of years the Province has financed the bulk of its net cash requirements from non-public borrowing sources. This section describes the Government's past policy with respect to the management of non-public borrowing and presents some proposals for new policies in the future. Table 9 shows the amounts borrowed from public and non-public sources since 1975-76.

[7]The Hon. W. Darcy McKeough, "Ontario's Borrowing and Public Capital Creation", Budget Paper A, *Ontario Budget 1978* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1978).

Financing Ontario's Cash Requirements — Table 9

($ million)

	1975-76	1976-77	1977-78	1978-79	Interim 1979-80
Net Cash Requirements	1,799	1,319	1,762	1,180	659
Financing					
Non-Public Borrowing	1,231	1,322	1,572	1,547	1,545
Net Public Borrowing	743	(230)	(66)	105	(411)
Total Borrowing	1,974	1,092	1,506	1,652	1,134
Increase (Decrease) in Liquid Reserves	175	(227)	(256)	472	475

In the 1970s, the Province relied on three major non-public borrowing sources: the Canada Pension Plan (CPP), the Teachers' Superannuation Fund (TSF) and the Ontario Municipal Employees Retirement System (OMERS).[8] Table 10 shows the composition of Ontario's financing from non-public sources.

The Sources of Ontario's Non-Public Borrowing, 1974-75 to 1980-81 — Table 10

(percentage distribution)

	CPP	TSF	OMERS	Other	Total
1974-75	60.7	24.8	12.4	2.1	100.0
1975-76	63.7	16.1	12.6	7.6	100.0
1976-77	61.5	25.3	13.6	(0.4)	100.0
1977-78	54.1	31.1	12.1	2.7	100.0
1978-79	59.2	31.6	6.5	2.7	100.0
1979-80 (Interim)	63.9	34.8	—	1.3	100.0
1980-81 (Estimated)	65.8	34.3	—	(0.1)	100.0

At the present time, the Canada Pension Plan provides almost two-thirds of the Province's financing from non-public sources. Under the terms of the CPP, established in 1966, funds not required for the payment of benefits in a particular year are made available to the provinces at rates related to the market yield on outstanding long term Government of Canada bonds. This feature has enabled provinces to borrow at slightly lower rates than would have been available in the open market.

The Teachers' Superannuation Fund is the next most important source of non-public borrowing for the Province. All of the assets of the Fund are invested in Province of Ontario debentures. At the end of 1979, the assets of the Teachers' Superannuation Fund amounted to $3.5 billion, and are expected to grow by more than $500 million per year over the next few years.

[8]Non-public borrowing does not include the Public Service Superannuation Fund.

The Ontario Municipal Employees Retirement System was established in 1963. By the end of 1978, the Province had borrowed $1.3 billion from this source. In 1975, however, the Government embarked on a program of allowing OMERS to invest a portion of its new cash flow in the private sector.[9] Beginning in 1979, all of OMERS' new investments have been made in the open market. This policy has meant that OMERS now adds significantly to the supply of capital for mortgages, equities and long term bonds. The composition of OMERS' investments in 1975 and 1978 is outlined in Table 11.

New Investments of OMERS
($ million)

Table 11

Class of Investment	1975	Percentage of Total	1978	Percentage of Total
		(%)		(%)
Ontario Debentures	168.2	91.5	121.3	41.6
Mortgages	7.3	4.0	82.5	28.3
Bonds	6.9	3.7	28.6	9.8
Equities	0.5	0.3	41.3	14.1
Real Estate	1.0	0.5	4.9	1.7
Short Term Securities	—	—	13.2	4.5
Total	183.9	100.0	291.8	100.0

Source: Ontario Municipal Employees Retirement Board, 1978 Annual Report.

New Directions

As documented earlier in this paper, Ontario's restraint program has resulted in a significant reduction in net cash requirements from the levels experienced in the mid to later part of the 1970s. In fact, in the 1979-80 fiscal year, the overall deficit was well below the amount of funds available from non-public borrowing sources despite the fact that Ontario has continued to maintain a strong program of capital investment. In the fiscal year just concluded, the Province decided to borrow all of the funds available to it in order to reduce publicly held debt and to augment liquid reserves.

The previous section outlined how Ontario could achieve a balanced budget capacity within four years, with continued economies in spending and reasonable growth in revenues. This would eliminate any need for net new long term borrowing. Even if economic conditions required that the pause strategy be extended, however, there would still be a surplus of non-public funds available to the Province over the next three years. As noted in an earlier section of this paper which deals with capital investments, the Government has ensured that the capital funds have been directed to creating assets which have

[9] The Hon. John White, "Budget Statement", *Ontario Budget 1974* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1974).

lasting social and economic value. This continues to be a prime objective of the Government. Any move to divert capital funds to finance ongoing programs of government simply postpones the need for tax increases. Accordingly, the Government has developed a strategy which will ensure that non-public borrowing proceeds are utilized in a way which will provide long term benefits to the Ontario economy and provide sound income producing assets for pension funds. In this regard, a major priority is the continued expansion of the electric power system which provides a secure and relatively low cost energy alternative to fossil fuels.

As an initial step, the Province will make available approximately $500 million from the CPP to Ontario Hydro in 1980-81. The major benefit of this action is that it will secure long term financing from domestic savings for Hydro at competitive rates of interest. This will significantly reduce Hydro's need for capital in Canadian and foreign bond markets and will free up some room for private sector access to financial markets.

A longer run program for the investment of CPP funds must be related to the outcome of federal-provincial discussions concerning the future financing of the CPP.[10] If contributions are not increased soon, by 1985 benefits paid out of the Plan will exceed contributions. This means that by 1993 the Fund will begin to diminish and will likely be exhausted by the year 2003.[11] Ontario is participating actively in this review with the objective of developing long run policy for the CPP geared to the needs of Canada's growing number of future pensioners and the economy.

The Province will also seriously consider the possibility of following an "OMERS option" for the Teachers' Superannuation Fund. To investigate this, it will initiate discussions with the Teachers' Superannuation Commission, teachers' organizations, school boards and other interested parties.

In reviewing these and other questions related to pension funds, the Province will be looking to the forthcoming recommendations of the Royal Commission on the Status of Pensions in Ontario.

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[10]Ontario Treasury Studies 16, *Issues in Pension Policy* (Toronto: Ministry of Treasury and Economics, 1979).

[11]*Canada Pension Plan Statutory Actuarial Report,* No. 6, as at December 31, 1977 (Ottawa: Department of Insurance).

Appendix

The Pickering Nuclear Agreement

In 1963 the Province entered into an agreement with Ontario Hydro and Atomic Energy Canada Limited (AECL). The purpose of the Agreement was to allow Ontario Hydro to spread the financial risks and high initial capital costs involved with the development of their first full scale nuclear power plant at Pickering. This Agreement covered the development and construction of Pickering Generating Station units 1 and 2.

Under the terms of the Agreement, Ontario Hydro undertook to finance that portion of the capital costs equivalent to the costs involved in building a comparable fossil fuel plant. The other two parties agreed to finance capital costs in excess of this amount, in the ratio of 5/11 for the Province and 6/11 for AECL. The Province made the necessary funds available in the form of an unsecured advance with no provision for interest or principal repayment. The return was based instead upon the relative operating efficiency of the CANDU reactor at the Pickering plant. To the extent that Pickering proved more efficient than the comparable fossil fuel plant, the return to the Province and AECL would be positive. If, on the other hand, the plant was less efficient, then the Province and AECL would be financially committed to making up the operating "losses".

The Province advanced a total of $100 million to Hydro between 1965 and 1975. The returns or "paybacks" from Hydro during the ensuing years were used to write down the amount of the original advance on the Province's books. By the middle of the 1979-80 fiscal year, the cumulative value of the paybacks was sufficient to write off the original advance completely. The paybacks are scheduled to continue until 2001. Consequently, the amount received during the second half of the fiscal year has been treated as a dividend payment and reclassified as budgetary revenue. It appears as an addition to the Miscellaneous Revenue category.

The unprecedented increases in the international price of crude oil which began in 1974, resulted in a dramatic increase in the cost of producing electricity from fossil fuels. Consequently, the differential in operating costs between the Pickering plant and Lambton (the plant chosen for comparative purposes in the Agreement) has continued to widen. This has caused a significant increase in the level of the paybacks, especially in recent years.

This increase in the level of the paybacks brought the Pickering Agreement to the attention of the Ontario Energy Board[1] and the Select

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[1]Ontario Energy Board, *Ontario Hydro Bulk Power Rates, Part II*, pp. 143-144, February, 1976.

Committee of the Legislature Investigating Hydro.[2] Both these bodies expressed concern at the escalation in the paybacks and their overall effect on the cost of power for consumers in the Province. They recommended that Hydro undertake negotiations with the Province and AECL aimed at reaching a settlement of the existing Agreement, so as to reduce the long term impact on the cost of power.

It is anticipated that an agreement will be reached in 1980-81 and, on this basis, provision for the resulting payments to the Province has been made. The payments will be made in equal instalments over the next two fiscal years — $100 million has been included in Table C2 for 1980-81.

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[2]Final Report of the Select Committee of the Legislature Investigating Ontario Hydro, *A New Public Policy Direction For Ontario Hydro*, Recommendation IV-4, June, 1976.

Financial Tables

Statement of Provincial Net Cash Requirements and Related Financing

Table C1

($ million)

	1977-78	1978-79	Interim 1979-80	Estimated 1980-81
Budgetary Transactions				
Revenue	11,099	12,322	14,193	15,298
Expenditure	12,920	13,913	15,368	16,709
Budgetary Deficit	1,821	1,591	1,175	1,411
Non-Budgetary Transactions				
Receipts and Credits	683	911	1,003	874
Disbursements and Charges	624	500	487	412
Non-Budgetary Surplus	59	411	516	462
NET CASH REQUIREMENTS	1,762	1,180	659	949
FINANCING				
Non-Public Borrowing				
Proceeds of Loans	1,586	1,568	1,568	1,121
Retirements of Loans	14	21	23	25
Net Non-Public Borrowing	1,572	1,547	1,545	1,096
Public Borrowing				
Proceeds of Loans	—	195	—	—
Retirements of Loans	(66)	(90)	(411)	(138)
Net Public Borrowing	(66)	105	(411)	(138)
Increase in Liquid Reserves	(256)	472	475	9
TOTAL FINANCING	**1,762**	**1,180**	**659**	**949**

Budgetary Revenue

Table C2

($ million)

	1977-78	1978-79	Interim 1979-80	Estimated 1980-81
Taxation				
Personal Income Tax[1]	2,447	2,735	3,163	3,430
Revenue Guarantee	210	44	—	10
Corporation Taxes				
Income Tax	743	964	1,236	1,270
Capital Tax	177	231	269	274
Insurance Premiums Tax	94	83	100	108
Mining Profits Tax	23	42	98	125
Retail Sales Tax	1,926	1,717	2,410	2,670
Gasoline Tax	523	539	612	631
Motor Vehicle Fuel Tax	85	94	128	135
Reciprocal Taxation	22	40	39	46
Tobacco Tax	206	258	275	291
Land Transfer Tax	62	67	92	100
Land Speculation Tax[2]	7	5	1	—
Race Tracks Tax	43	46	51	55
Succession Duty[3]	73	63	47	8
Income Tax—Public Utilities	8	15	—	23
Other Taxation	3	3	3	4
	6,652	6,946	8,524	9,180
Other Revenue				
Premiums—OHIP	830	977	1,035	1,054
LCBO Profits	327	356	400	423
Vehicle Registration Fees	267	301	315	336
Other Fees and Licences	219	244	271	290
Fines and Penalties	59	62	68	70
Ontario Lottery Profits	71	46	59	67
Sales and Rentals	42	45	44	65
Royalties	49	57	62	64
Utility Service Charges	48	55	54	52
Miscellaneous	56	57	142	167[4]
	1,968	2,200	2,450	2,588
Payments from the Federal Government (see Table C6)	2,040	2,748	2,730	3,008
Interest on Investments	439	428	489	522
TOTAL BUDGETARY REVENUE	**11,099**	**12,322**	**14,193**	**15,298**

[1]Net of tax credits of $424 million, $434 million, $455 million and $463 million for the 1977-78, 1978-79, 1979-80 and 1980-81 fiscal years.

[2]Repealed in November 1978.

[3]Repealed April 10, 1979.

[4]Includes the Pickering Agreement settlement; see Appendix for details.

Budgetary Expenditure by Policy Field and Ministerial Responsibility

Table C3

($ million)

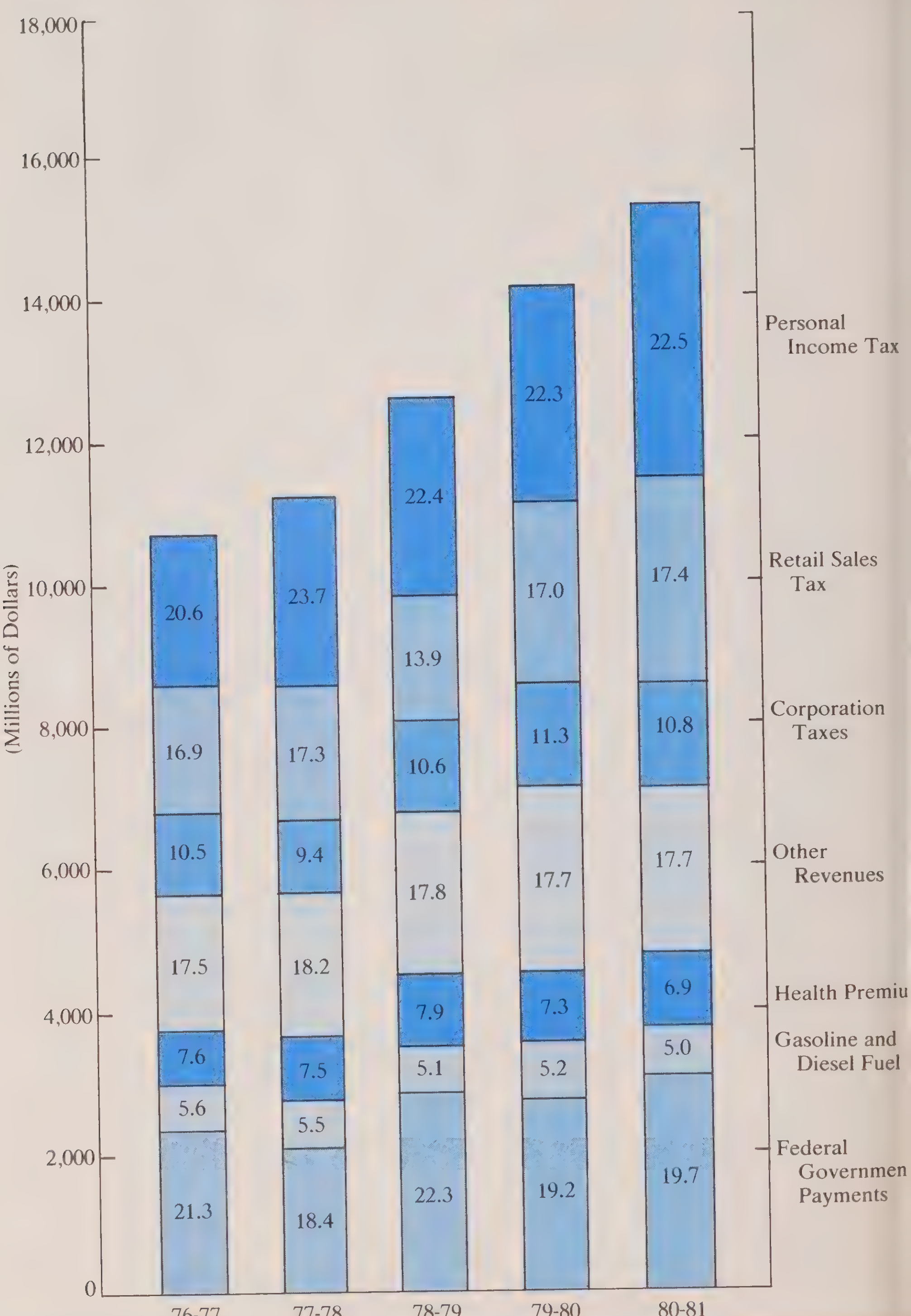
	1977-78	1978-79	Interim 1979-80	Estimated 1980-81
Social Development Policy				
Health	3,628	3,955	4,265	4,717
Education	2,342	2,390	2,571	2,617
Colleges and Universities	1,259	1,372	1,448	1,526
Community and Social Services	1,140	1,228	1,346	1,455
Culture and Recreation	192	207	202	191
	8,561	9,152	9,832	10,506
Resources Development Policy				
Transportation and Communications	1,034	1,069	1,140	1,199
Natural Resources	243	247	278	289
Housing	172	167	200	258
Environment	114	122	135	185
Agriculture and Food	170	174	161	182
Industry and Tourism	53	60	69	74
Labour and Manpower	29	34	42	50
Energy	7	9	14	31
	1,822	1,882	2,039	2,268
Justice Policy				
Solicitor General	153	168	187	192
Attorney General	129	140	157	165
Correctional Services	118	130	139	146
Consumer and Commercial Relations	63	63	70	73
	463	501	553	576
Other Ministries				
Intergovernmental Affairs	392	511	680	469
Government Services	270	253	327	287
Revenue[1]	195	194	195	219
Pensioner Property Tax Grants	—	—	—	214
Pensioner Sales Tax Grants	—	—	—	41
Northern Affairs	113	125	139	157
Treasury and Economics	19	20	20	22
Employment Development Fund	—	—	130	125
Assembly	30	22	19	22
Management Board	8	8	11	11
Ombudsman	4	4	4	5
Other	10	11	12	12
	1,041	1,148	1,537	1,584
Public Debt—Interest	1,033	1,230	1,407	1,614
Contingency Fund	—	—	—	161
TOTAL BUDGETARY EXPENDITURE	**12,920**	**13,913**	**15,368**	**16,709**

[1]Supplementary Estimates to be tabled in the Legislature for Pensioner Property and Sales Tax Grants, and for the GAINS enrichment.

Major Budgetary Revenue Sources, 1976-77 to 1980-81

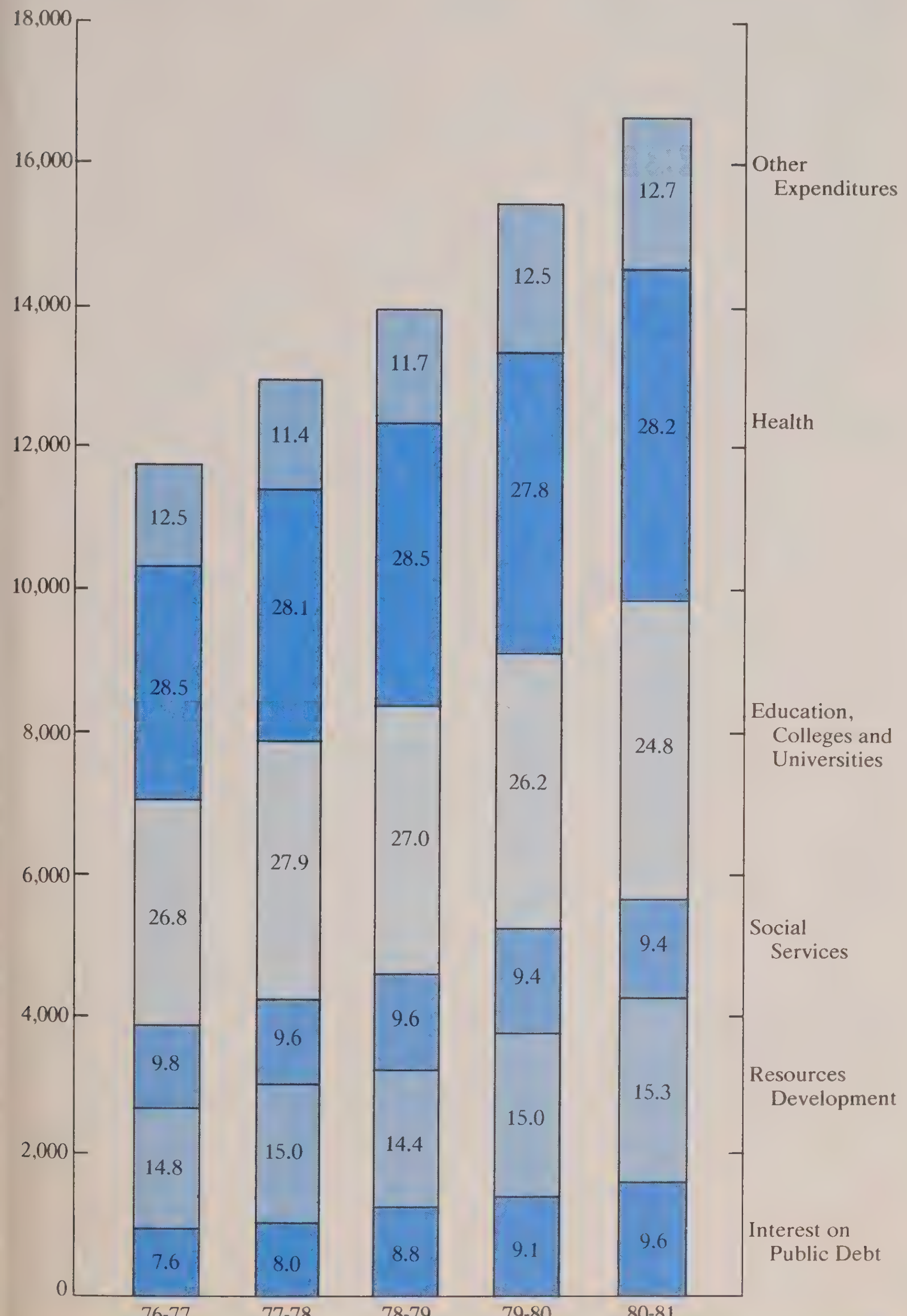
(per cent of total)

Chart C



Major Budgetary Expenditure Functions, 1976-77 to 1980-81
(per cent of total)

Chart C2



Details of Non-Budgetary Transactions

Table C4

($ million)

RECEIPTS	1977-78	1978-79	Interim 1979-80	Estimated 1980-81
Repayments of Loans, Advances and Investments				
Education Capital Aid Corporation	62	67	73	76
Investment in Environmental Protection	35	52	35	31
Universities Capital Aid Corporation	26	28	29	30
Ontario Development Corporations	21	20	20	24
Ontario Mortgage Corporation	21	143	45	23
Loans to Public Hospitals	18	19	18	17
Tile Drainage Debentures	8	9	10	12
Ontario Land Corporation	10	2	5	9
Municipal Works Assistance	5	4	3	5
Municipal Improvement Corporation	5	5	—	4
Ontario Junior Farmers	4	5	4	4
Ontario Housing Corporations	12	34	6	1
Ontario Energy Corporation	—	—	106	—
Nuclear Power Generating Station	22	20	5	—
Other	13	12	8	9
TOTAL RECEIPTS	262	420	367	245
DISBURSEMENTS				
Loans, Advances and Investments				
Investment in Environmental Protection	135	147	140	126
Ontario Development Corporations	42	40	39	37
Tile Drainage Debentures	19	18	30	25
Ontario Land Corporation	4	15	19	24
Regional and Municipal Public Works	24	20	9	8
Ontario Housing Corporations	30	29	4	7
Municipal Improvement Corporation	3	1	1	4
Educaton Capital Aid Corporation	81	71	69	—
Crop Insurance Commission	8	—	38	—
Ontario Mortgage Corporation	86	15	—	—
Ontario Energy Corporation	—	20	—	—
Loans to Public Hospitals	30	—	—	—
Universities Capital Aid Corporation	34	—	—	—
Other	3	2	2	2
TOTAL DISBURSEMENTS	**499**	**378**	**351**	**233**
NET INCREASE IN LENDING ACTIVITY	**237**	**(42)**	**(16)**	**(12)**

Details of Non-Budgetary Transactions

Table C5

($ million)

CREDITS	1977-78	1978-79	Interim 1979-80	Estimated 1980-81
Payments into Special Purpose Accounts				
Public Service Superannuation Fund	252	298	329	368
Superannuation Adjustment Fund				
Teachers' Superannuation Plan	53	59	69	81
Public Service Superannuation Plan	34	30	37	42
Province of Ontario Savings Deposits (net)	6	60	150	74
The Provincial Lottery	29	16	21	23
Super Loto	—	—	—	19
Motor Vehicle Accident Claims Fund	18	18	13	10
Other	29	10	17	12
TOTAL CREDITS	**421**	**491**	**636**	**629**
CHARGES				
Payments from Special Purpose Accounts				
Public Service Superannuation Fund	57	71	84	93
Superannuation Adjustment Fund	2	5	10	17
The Provincial Lottery	8	11	12	26
Super Loto	—	—	—	19
Motor Vehicle Accident Claims Fund	18	19	21	17
Ontario Energy Corporation	33	—	—	—
Other	7	16	9	7
TOTAL CHARGES	**125**	**122**	**136**	**179**
NET INCREASE IN SPECIAL PURPOSE ACCOUNTS	**296**	**369**	**500**	**450**

Federal Government Payments to Ontario

Table C6

($ million)

	1977-78	1978-79	Interim 1979-80	Estimated 1980-81
Established Programs Financing	1,233	1,605	1,817	1,963
Hospital Insurance	29	28	30	7
Medical Care	8	—	—	—
Extended Health Care Services	167	188	208	230
Canada Assistance Plan	416	418	472	506
Adult Occupational Training	76	105	88	104
Community Service Contribution Program	—	—	—	39
Bilingualism Development	31	50	3	60
Economic Development	21	13	8	19
Vocational Rehabilitation	11	11	14	12
Economic Stimulation[1]	—	288	35	—
Other Federal Payments	48	42	55	68
TOTAL PAYMENTS	**2,040**	**2,748**	**2,730**	**3,008**
Annual Per Cent Increase	(8.8)	34.7	(0.7)	10.2
Federal Payments as a Per Cent of Ontario Budgetary Revenue	18.4	22.3	19.2	19.7

[1]Federal share of the joint federal-provincial economic stimulus program which reduced the rate of the retail sales tax from 7 per cent to 4 per cent for the period April 11 to October 7, 1978.

Ontario's Capital Investments

Table C7

($ million)

	1977-78	1978-79	Interim 1979-80	Estimated 1980-81
Physical Assets (roads, highways, bridges, water and sewer facilities, drainage and flood control, etc.)	814	751	811	852
Buildings (schools, universities, colleges, hospitals, housing projects)	414	391	357	383
Land (right-of-way and other)	84	92	159	104
Transportation Vehicles (buses, subway and street cars, etc.)	63	52	41	34
Financial Assets (mortgages, commercial loans, etc.)	161	75	42	37
Employment Development Fund	—	—	130	125
TOTAL INVESTMENTS	**1,536**	**1,361**	**1,540**	**1,535**

Financing

($ million)

Table C8

	1977-78	1978-79	Interim 1979-80	Estimated 1980-81
Non-Public Borrowing				
Canada Pension Plan	851	916	988	550[1]
Teachers' Superannuation Fund	488	489	537	547
Municipal Employees' Retirement Fund	190	100	—	—
CMHC Pollution Control Loans	57	63	43	24
Retirements	(14)	(21)	(23)	(25)
Net Non-Public Borrowing	1,572	1,547	1,545	1,096
Public Borrowing				
Treasury Bills (net)	—	195	(325)	—
Debenture Issues	—	—	—	—
Debenture Retirements	(66)	(90)	(86)	(138)
Net Public Borrowing	(66)	105	(411)	(138)
Increase in Liquid Reserves	**(256)**	**472**	**475**	**9**
TOTAL FINANCING	**1,762**	**1,180**	**659**	**949**

[1]Gross borrowing is $1,050 million, less $500 million flow through to Ontario Hydro. See page 15 of Budget Paper C for details.

Reconciliation with Public Accounts of Provincial Net Cash Requirements and Financing

($ million)

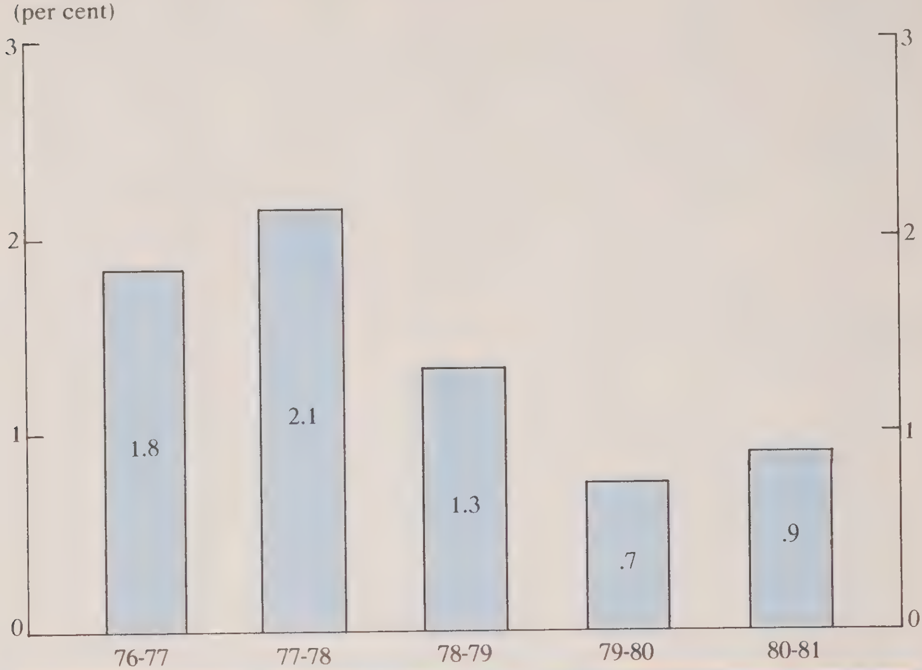
Table C8(a)

	1977-78	1978-79	Interim 1979-80	Estimated 1980-81
Net Cash Requirements for Provincial Purposes	1,762	1,180	659	949
Net Cash Requirements for Ontario Hydro Transactions	392	668	514	500[1]
Total Cash Requirements (per Public Accounts)	**2,154**	**1,848**	**1,173**	**1,449**
Financing for Provincial Purposes	1,762	1,180	659	949
Net U.S. Borrowing on behalf of Ontario Hydro	392	668	514	—
Borrowing from CPP for Ontario Hydro	—	—	—	500
Total Financing (per Public Accounts)	**2,154**	**1,848**	**1,173**	**1,449**

[1]Reflects CPP transactions only.

Net Cash Requirements as a Per Cent of Gross Provincial Product, 1976-77 to 1980-81

Chart C3



Ontario Payments to Local Governments and Agencies

Table C9

($ million)

	1977-78	1978-79	Interim 1979-80	Estimated 1980-81
Conditional Payments				
School Boards (incl. capital)	1,870	1,969	2,123*	2,197*
Transportation	490	498	512	571
Social Assistance	183	210	233	246
Housing	37	33	40	88
Environment	29	34	39	74
Agriculture	57	57	52	64
Northern Affairs	22	26	27	28
Culture and Recreation	23	20	17	18
Health	13	16	17	18
Other	7	5	7	10
	2,731	2,868	3,067	3,314
Unconditional Payments				
Resource Equalization	98	110	113	144
General Support	109	134	221	92
Per Capita—Policing	56	93	94	94
Per Capita—General	42	76	115	39
Payments-in-lieu of Taxes	45	46	50	52
Northern Ontario Support	30	37	61	25
Other	18	15	17	14
	398	511	671*	460*
Payments to Local Agencies				
Children's Aid Societies	78	89	110	113
Homes for the Aged	85	86	94	102
Health Agencies	44	42	54	61
Conservation Authorities	30	34	32	34
Library Boards	22	22	23	23
	259	273	313	333
TOTAL TRANSFER PAYMENTS	**3,388**	**3,652**	**4,051***	4,107*

*1979-80 data incorporate prepayments of $82 million to school boards and $135 million in unconditional payments. 1980-81 data have been adjusted accordingly.

Public Service Strength in Ontario by Category, December 31, 1979[1] — Table C10

Ministry	Classified Staff	Unclassified Staff	Other Crown Employees	Total
Premier	51	10	—	61
Cabinet Office	36	4	—	40
Management Board	69	10	—	79
Civil Service Commission	186	19	—	205
Government Services	2,783	265	—	3,048
Revenue	3,801	72	—	3,873
Treasury and Economics	424	50	1	475
Intergovernmental Affairs	198	50	—	248
Northern Affairs	157	37	—	194
Justice Policy	13	1	—	14
Attorney General	2,997	1,791	420	5,208
Consumer and Commercial Relations	1,819	256	202	2,277
Correctional Services	4,506	828	46	5,380
Solicitor General	1,487	517	2	2,006
Resources Development Policy	17	58	1	76
Agriculture and Food	1,538	276	—	1,814
Energy	98	7	—	105
Environment	1,429	163	—	1,592
Housing	1,073	119	999	2,191
Industry and Tourism	543	225	—	768
Ontario Development Corporations	172	4	—	176
Labour and Manpower	1,229	90	13	1,332
Natural Resources	4,374	1,991	—	6,365
Transportation and Communications	10,034	2,116	—	12,150
Social Development Policy	40	18	—	58
Colleges and Universities	602	76	2	680
Community and Social Services	10,292	1,521	—	11,813
Culture and Recreation	871	343	—	1,214
Education	1,423	477	589	2,489
Health	11,109	1,100	—	12,209
O.P.P. Uniformed Staff and Security Guards	4,134	—	—	4,134
Environment Plant Operators	556	99	—	655
Total	68,061	12,593	2,275	82,929

[1]Excludes staff of the Lieutenant Governor, Office of the Assembly, Ombudsman and Provincial Auditor.

Ontario Lottery Corporation Proceeds — Table C11

($ million)

	1978-79	Interim 1979-80	Estimated 1980-81
Balance at beginning of year	85	59	52
Wintario Lottery Proceeds	46	46	42
Lottario Proceeds	—	13	25
	131	118	119
Less—Expenditure on approved projects and overhead costs	72	66	48
Balance at end of year	59	52	71

Provincial Lottery Proceeds — Table C12

($ million)

	1978-79	Interim 1979-80	Estimated 1980-81
Balance at beginning of year	29	34	43
Provincial Lottery Proceeds	16	21	23
	45	55	66
Less—Approved spending for health research, capital and social services	11	12	26
Balance at end of year	34	43	40

Table C13

Ten-Year Review

($ million)

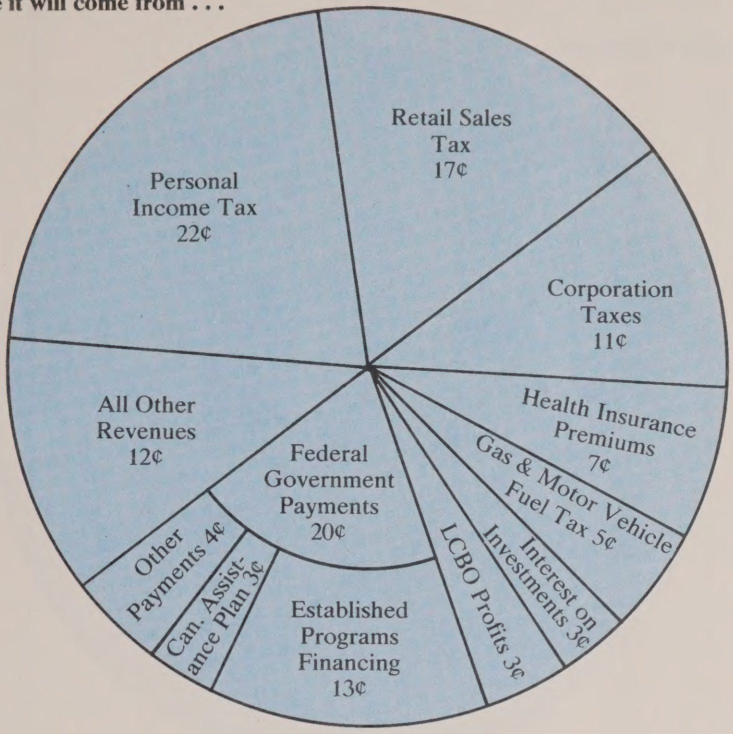
	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	Interim 1979-80	Estimated 1980-81
Financial Transactions										
Revenue	5,615	6,294	7,177	8,855	9,520	11,148	11,782	13,233	15,196	16,172
Expenditure	6,636	7,038	7,885	9,832	11,319	12,467	13,544	14,413	15,855	17,121
Net Cash Requirements	1,021	744	708	977	1,799	1,319	1,762	1,180	659	949
Financial Position										
Funded Debt (excluding Ontario Hydro)	5,270	6,300	7,008	7,844	9,818	10,895	12,364	14,037	15,221	16,195
Funded Debt per Capita (dollars)	677	798	873	962	1,190	1,307	1,466	1,653	1,784	1,885
Funded Debt as a Per cent of Gross Provincial Product	13.7	14.5	13.9	13.1	14.9	14.7	15.1	15.6	15.0	14.7
U.S. Borrowing on behalf of Ontario Hydro	1,005	1,159	1,382	1,710	2,240	2,509	2,901	3,568	3,782	n.a.
Contingent Liabilities (mainly Ontario Hydro)	2,781	3,030	3,330	3,843	5,027	5,735	6,152	6,692	n.a.	n.a.

n.a. — not available

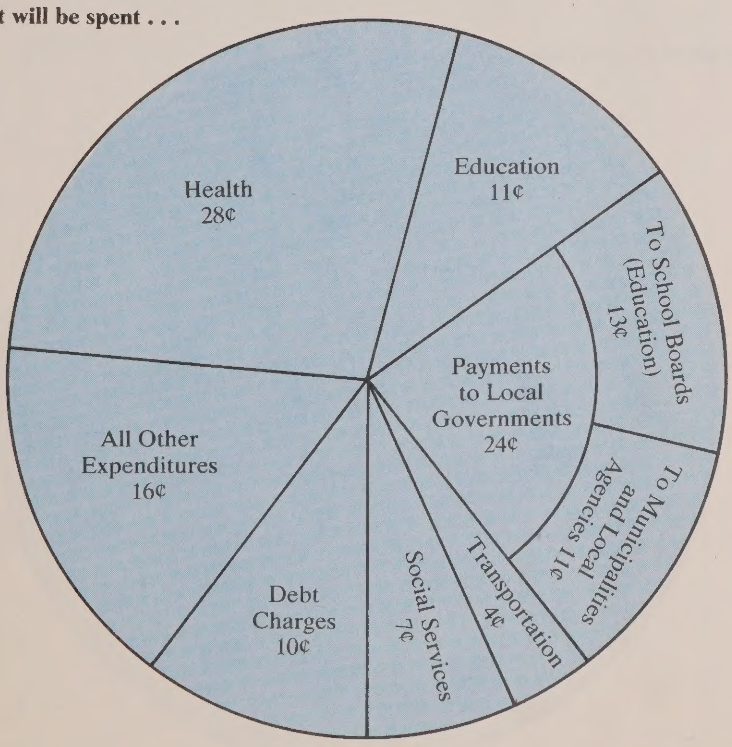
THE BUDGET DOLLAR

Fiscal Year 1980-81 Estimates

Where it will come from . . .

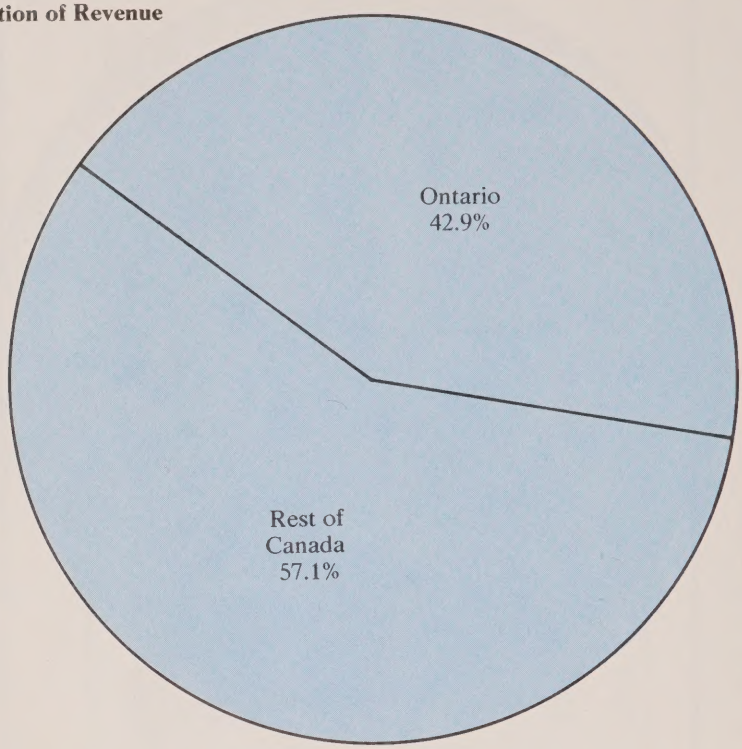


How it will be spent . . .



THE FEDERAL TAX DOLLAR IN ONTARIO AND THE REST OF CANADA 1979

Proportion of Revenue



Proportion of Expenditure